AR82

EMBER RESOURCES INC.

EMBER RESOURCES HAS AN INDUSTRY-LEADING POSITION IN THE COALBED METHANE (CBM) PLAY EMERGING IN CANADA. CBM IS BEING VIEWED AS AN INCREASINGLY IMPORTANT SOURCE OF NATURAL GAS SUPPLY IN NORTH AMERICA; IT ACCOUNTS FOR ABOUT 10% OF PRODUCTION IN THE U.S. AND IS JUST EMERGING IN CANADA. EMBER IS AT THE INDUSTRY FOREFRONT OF TRANSFERRING ITS CBM RESOURCES INTO RESERVES, WITH THE CURRENT RESOURCE-IN-PLACE ESTIMATED AT 1.1 TCF.

2006 ANNUAL REPORT

2006 Highlights

	Three months ended December 31, 2006	Three months ended December 31, 2005	**Year ended December 31, 2006**	Period ended December 31, 2005	Year over year percentage change
		(Restated)		*(Restated)*	
FINANCIAL HIGHLIGHTS *($000s, except per unit amounts)*					
Natural gas sales	$ 3,784	$ 2,630	**$ 10,414**	$ 4,404	136
Funds from operations	$ 2,057	$ 1,855	**$ 4,627**	$ 3,016	53
– per share basic	$ 0.07	$ 0.06	**$ 0.15**	$ 0.11	36
– per share diluted	$ 0.07	$ 0.06	**$ 0.15**	$ 0.10	50
Net income (loss)	$ (300)	$ 925	**$ (3,512)**	$ 1,122	(413)
– per share basic and diluted	$ (0.01)	$ 0.03	**$ (0.12)**	$ 0.04	(400)
Capital investment (including abandonment cost)	$ 6,007	$ 26,659	**$ 34,887**	$ 31,594	10
Bank loan	$ 8,890	$ –	**$ 8,890**	$ –	N/A
Total assets	$ 82,410	$ 78,446	**$ 82,410**	$ 78,446	5
Working capital (deficiency)	$ 11,095	$ (19,172)	**$ 11,095**	$ (19,172)	(158)
Average shares – basic	30,417	28,176	**30,417**	28,176	8
Average shares – diluted	30,417	29,121	**30,417**	29,121	4
OPERATING HIGHLIGHTS					
Daily average gas production *(mcf/d)*	6,107	2,475	**4,655**	2,405	94
Daily average production *(boe/d)*	1,018	412	**776**	401	94
Average sales price *($/mcf)*	6.74	11.55	**6.13**	9.95	(38)
Royalties *($/mcf)*	0.40	1.05	**0.62**	0.80	(22)
Operating expenses *($/mcf)*	1.36	1.55	**1.54**	1.40	10
Transportation expenses *($/mcf)*	0.19	0.25	**0.21**	0.29	(25)
Operating netback *($/mcf)*	4.79	8.70	**3.76**	7.46	(50)
Operating netback *($/boe)*	28.71	52.22	**22.51**	44.77	(50)
CBM wells drilled *(gross/net)*	1.0/1.0	34.0/34.0	**28.0/27.5**	44.0/43.0	(36)/(36)
– Mannville	1.0/1.0	6.0/6.0	**4.0/3.5**	8.0/7.0	(50)/(50)
– Horseshoe Canyon	–/–	28.0/28.0	**24.0/24.0**	36.0/36.0	(33)/(33)
Land *(000s of net acres)*	292	308	**292**	308	(5)

Ember was formed in July 2005, so the 2005 comparative amounts are for the six months ended December 31, 2005.

BUILDING OUR BUSINESS

Financial Performance

- Funds from operations were $4.627 million ($0.15/share diluted) versus $3.016 million ($0.10/share diluted) in the six month period since our inception in mid-2005.
- Ember recorded a net loss of $3.512 million in 2006 (net loss of $0.12/share diluted) as compared to net income of $1.122 million ($0.04/share diluted) in the six month period ended December 31, 2005.
- Capital expenditures in 2006 totaled $34.887 million versus $31.594 million in 2005.
- At year end, our net bank debt and working capital deficiency totaled $11.095 million. In the first quarter of 2007, we reduced net bank debt and working capital deficiency through the issue of 5,660,400 common shares at $2.65 raising $15 million net. Of this amount $8.75 million was used to acquire a CBM property at Acme, Alberta, with the balance of $6.25 million applied to debt and to working capital. Currently Ember has a $15 million line of credit.
- Net asset value at December 31, 2006 was estimated at $3.68/share. Including the assets acquired at Acme on March 1, 2007, our net asset value is estimated at $3.96/share. Net asset value is calculated using net present value of proved plus probable reserves discounted at 10%, with forecasted prices and $200/acre for undeveloped land.

Production Growth

- Production for the year averaged 4.7 mmcf/d, up from 2.4 mmcf/d in 2005. Fourth quarter volumes increased 147% to 6.1 mmcf/d from the same period last year, while production per share increased 134%.
- Fourth quarter production grew 23% from the third quarter's 4.9 mmcf/d, the fourth consecutive double-digit quarter of production growth.
- Current production is estimated at 6.5 mmcf/d.

Reserve Additions

- With the drilling of 27.5 net wells, proved plus probable reserves increased 74% to 27.4 bcf from 15.7 bcf in 2005. Proved plus probable reserves per share were up 65% from 2005.
- Finding and development costs for proved plus probable reserves are estimated at $15.63/boe before future capital, and $21.84/boe including future capital.
- Possible reserves were recognized by Ember's independent engineers for the first time in 2006. A total of 13.2 bcf of gas was recorded in the possible category, 85% of which was attributed to successes in the Mannville coals at Manola. Proved, probable and possible reserves at December 31, 2006 totaled 40.6 bcf.

Acquisition in March 2007

- On March 1, 2007 Ember completed the acquisition of a property at Acme, Alberta which is on trend with Horseshoe Canyon coals. A total of 33.6 bcf of proved, probable and possible reserves were acquired at a cost of $8.75 million. On a pro-forma basis, total proved, probable and possible reserves have increased 373% to 74.2 bcf from 15.7 bcf at year-end 2005.

CHAIRMAN'S MESSAGE

IN OUR FIRST FULL YEAR AS A CBM-DEDICATED COMPANY, WE ACHIEVED ALL OF OUR OPERATIONAL TARGETS, INCLUDING STEADY QUARTER OVER QUARTER PRODUCTION INCREASES AND EXCELLENT RESERVE GROWTH.

All of the benchmarks were achieved while having to curtail capital spending in the second half of 2006 due to major declines in gas prices. We have since executed further growth with an acquisition completed in early March 2007 of a new CBM asset at Acme, Alberta. This was accomplished through a private placement of shares that raised $15 million net, of which $8.75 million was used to acquire the Acme property, with the balance of $6.25 million applied to debt and to working capital.

Our Strategy

Ember's operations are focused in two CBM plays; the low risk Horseshoe Canyon coals, and the higher reward, emerging Mannville coals. The Horseshoe Canyon coals are in the development phase at our Fenn-Big Valley property, which accounts for 89% of our production, and we are in the planning stages for a project at our newly acquired Acme property. As the Horseshoe Canyon coals yield low cost and long life reserve additions, our strategy has been to push forward with development to build a base of cash flow while we continue to advance our Mannville coals to commercialization.

The Mannville CBM play has fewer industry participants than the Horseshoe Canyon and Ember is at the forefront of developing new technologies and techniques to exploit our extensive resource-in-place. Our two projects at Manola and Rosalind are moving towards the development phase and we are seeing early commercial success due, in part, to drilling and stimulation techniques introduced in 2006 which have improved the characteristics of producing wells. As we continue to fine-tune our technological solutions, we believe that the Mannville play will become a more significant source of activity and production.

Operations

Mannville Coals

We have made significant strides toward commercialization of our Mannville coal resource. Continuous improvements to existing technologies and the application of new technologies have yielded positive results from Mannville horizontal wells during 2006. Some of that success has been recognized by our independent engineers with a total of 0.8 bcf proved, 4.7 bcf of probable and 11.2 bcf of possible reserves recorded at year end.

Four horizontal wells were drilled in 2006, three at Manola and one at Rosalind. Two are considered commercial having achieved peak rates of 200 and 400 mcf/d. Both of these wells were put on production without stimulation and continue to meet expectations. Two wells required additional stimulation and are in the early stages of de-watering post-stimulation. Two different stimulation techniques were used to help evaluate the effectiveness of various treatments.

An estimated nine (7.5 net) horizontal wells are planned for 2007, the first of which is currently drilling with the balance to be drilled in the second half of 2007. Capital associated with these new wells is estimated at $12 million. Our goals for this year's program will include repeating past drilling and completion success, and optimizing stimulation techniques if required.

Horseshoe Canyon Coals

Production continues to grow from our Horseshoe Canyon development program at Fenn-Big Valley. During 2006, 24 Horseshoe Canyon wells (24.0 net) were drilled. For 2007, we will be working on a number of recompletions, and a summer drilling program of up to 15 wells.

Our newly acquired Acme property is well advanced in both regulatory approvals and infrastructure design and planning. Initially, our approach will be to focus on development around existing shut-in wells. With a capital allocation of $15 million, Ember will be able to install sufficient plant and pipeline capacity to tie-in nine of the 10 existing wells and drill and tie-in another 18 development wells. This activity is expected to add an additional 3 mmcf/d in productive capacity with additional upside from co-mingling gas from conventional sands with the Horseshoe Canyon CBM.

Finding, Development and Acquisition Costs

Ember's finding and development costs are comprised of two distinct CBM investments. Horseshoe Canyon coals which are commercial and in the development stage, and Mannville coals which have been in the pilot and demonstration phase with some commercial success. A significant portion of Mannville capital costs are undeveloped and have not been assigned reserves.

- Finding and development costs for Horseshoe Canyon coals are estimated at $14.90/boe proved and $11.66 proved plus probable. Including future capital, finding and development costs are estimated at $14.72/boe proved and $12.49/boe proved plus probable.
- Finding and development costs for Mannville coals are estimated at $144.90/boe proved and $24.40/boe proved plus probable. Including future capital, finding and development costs are estimated at $147.30/boe proved and $42.60/boe proved plus probable.
- Ember's total finding and development costs, before future capital, are estimated at $26.40/boe proved and $15.63 proved plus probable. Including future capital, finding and development costs are estimated at $26.44/boe proved and $21.84/boe proved plus probable.

2007 Guidance

Current production is estimated at 6.5 mmcf/d. Volumes are expected to remain flat in the first half of 2007 due to reduced drilling and capital spending in the second half of 2006, pump changes on Mannville CBM wells, and longer than expected de-watering time on new drills. Production growth should accelerate in the second half of 2007 with the resumption of drilling, and plans for shut-in wells to be brought onstream at the recently acquired Acme property.

We are estimating total 2007 capital spending of $30 million, including the Acme acquisition. Funding will come from cash flow, existing lines of credit and the private placement completed in March. Production is estimated to average 7.5 mmcf/d for the full year, with a target year-end exit rate of 9 mmcf/d.

Capital programs could increase by a further $15 million if the first phase of the Acme project is completed this year. Ember is currently considering financing options for the first phase of the Acme development program. Exit rates would increase to 12 mmcf/d with minimal impact to the full-year average as additions would be expected to occur late in 2007.

On behalf of the Board

Douglas Dafoe
Chairman and Chief Executive Officer

March 14, 2007

OUR RESOURCE BASE

Ember has four core areas tapping the CBM potential in two separate coal trends, each with unique production characteristics.

Mannville Coals (Manola/Rosalind/Fenn-Big Valley)

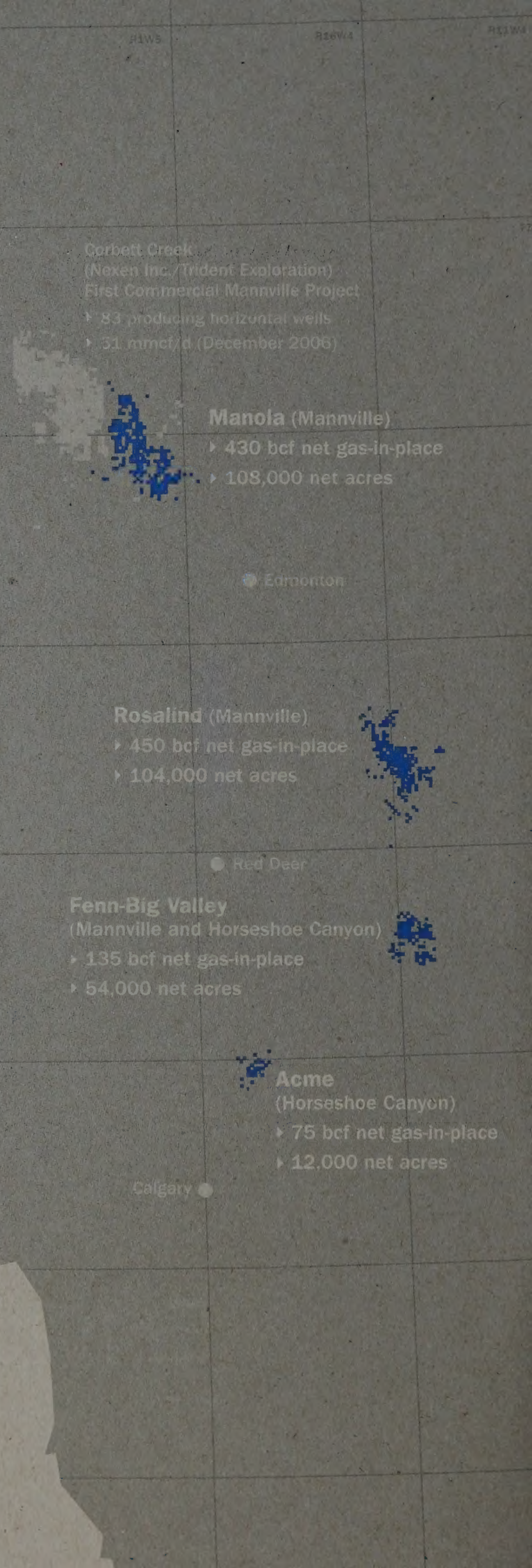
A wide belt of Mannville coals is found across central Alberta. These deeper coals are considered "wet". New wells must be de-watered – the saline water stored in the coal seam must be produced over six months to two years before wells reach peak gas production. Mannville wells can produce on average 300-500 mcf/d and have recoveries of 0.5-1.0 bcf. The industry's first commercial Mannville project was announced in July 2005 at Corbett Creek.

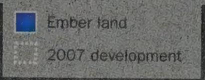
EMBER IN THE MANNVILLE
- Two project areas advancing to commercialization
- Current production 700 mcf/d
- 1.0 tcf of CBM resource-in-place
- 5.5 bcf proved plus probable reserves
- 240,000 undeveloped net acres on trend

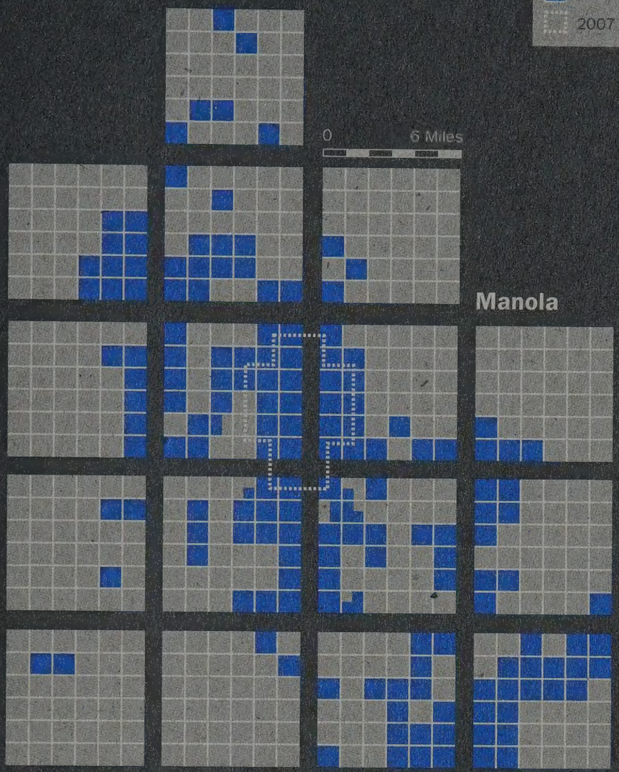
Horseshoe Canyon Coals (Fenn-Big Valley/Acme)

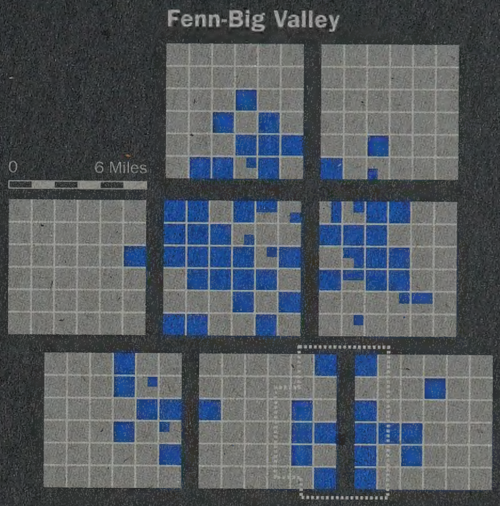
These shallow coals in central Alberta are "dry", meaning they store little or no water, and no water is associated with gas production. The drilling and completion risk is low and, with consistent drilling, these coals generate predictable production growth. Production per well is in the range of 50-100 mcf/d with recoveries of 0.1-0.3 bcf.

EMBER IN THE HORSESHOE CANYON
- Two commercial project areas
- Current production 5,800 mcf/d
- 130 bcf of CBM resource-in-place
- 49.3 bcf proved plus probable reserves
- 66,000 net acres on trend
- 2006 F&D costs $12.49/boe
- Recycle ratio 2.0



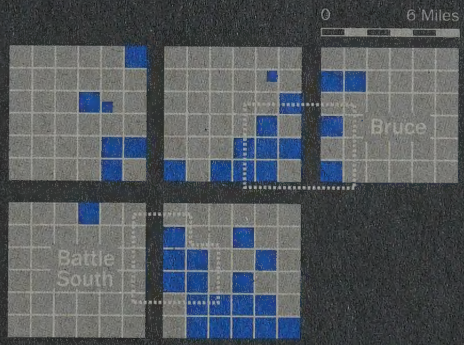


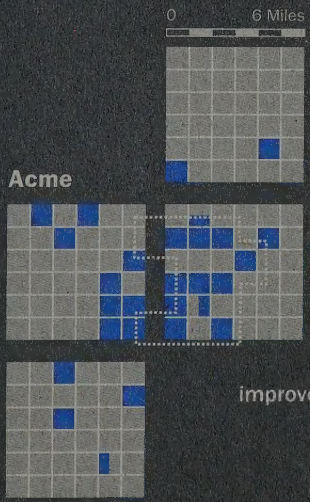


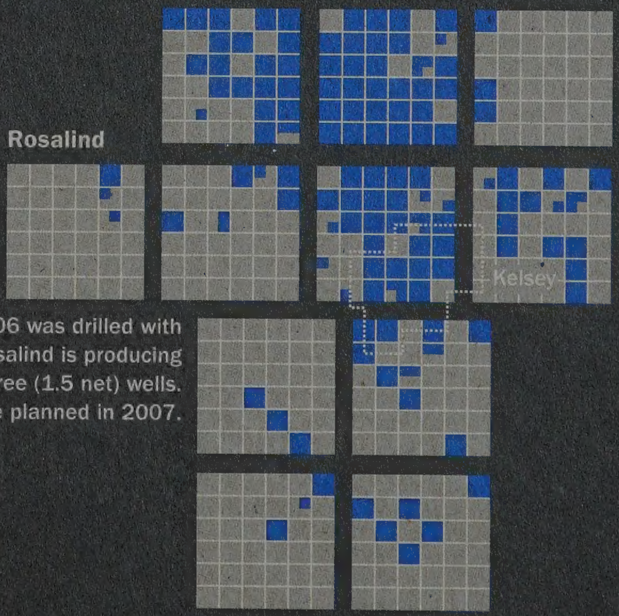


Commercial development is ongoing with over 100 wells on production and another 100 in inventory.

Three horizontal wells drilled in 2006 are in the early stages of de-watering, joining five wells already de-watering. Six new wells are to be drilled in 2007. Manola's Mannville production is currently 500 mcf/d.







One horizontal well in 2006 was drilled with improved drilling techniques. Rosalind is producing 200 mcf/d net from three (1.5 net) wells. Three (1.5 net) wells are planned in 2007.

Acquired in March 2007.
Approvals and development planning are well advanced to add productive capacity of 3.0 mmcf/d, possibly by year end.

PROPERTY REVIEW

Mannville Coals

Ember's technical team has made major strides in advancing the commercialization of its Mannville coal resource and unlocking the true CBM potential. In 2006 a detailed technical review of past drilling results led to the introduction of improvements to existing technologies and the application of new technologies, both of which have yielded positive results. Some of that success was recognized in the 2006 year-end independent engineering report which increased Ember's Mannville reserves to 0.8 bcf proved, 4.7 bcf of probable and 11.2 bcf of possible reserves. A process of continuous improvement is underway with completion and stimulation techniques being tested to improve well production characteristics.

A total of nine (7.5 net) horizontal wells are planned for 2007, the first of which is drilled with the balance to be drilled in the second half of 2007.

Rosalind

CBM development has been underway at Rosalind since 2002 through a predecessor company, and now Ember, in a 50% partnership with Conoco Phillips (previously Burlington Resources), one of the largest CBM producers in the U.S. To date, three horizontal wells have been drilled and are in various stages of de-watering and production growth. One well was drilled in 2006 and placed on production without stimulation and has achieved a commercial rate of 200 mcf/d (100 mcf/d net). Current production from Rosalind is 200 mcf/d net. In 2007, three (1.5 net) new horizontal wells are expected to be drilled.

Manola

Ember's technical team conducted the first Mannville test at Manola in 2003, and to date, 10 (10.0 net) horizontal wells have been drilled in this project operated and owned 100% by Ember. Three horizontal wells were drilled at Manola in 2006 with one achieving a peak rate of 400 mcf/d after being put on production without stimulation. The other two wells required stimulation and are in the early stages of de-watering. Two different stimulation techniques were used to help evaluate the effectiveness of various treatments. Development activities at Manola increased year-end 2006 reserves to 5.5 bcf proved plus probable and to 16.7 bcf including possible reserves (no reserves were previously booked). The first of six wells was drilled in the first quarter. Drilling is expected to recommence after break-up in 2007 with five (5.0 net) additional horizontal wells planned.

Horseshoe Canyon Coals

The Horseshoe Canyon coals have proven to yield low cost reserve additions and the capability of steady production growth. Ember has two focus areas, Fenn-Big Valley and the recently acquired Acme property, both operated by Ember at high working interests, with a combined 220 net Horseshoe Canyon drilling locations in inventory.

Fenn-Big Valley

A large development project is ongoing at Fenn-Big Valley, with the technical team at Ember having worked the area's Horseshoe Canyon coals since 2003. Production in 2006 averaged approximately 4.1 mmcf/d.

To date, 70 (70.0 net) vertical wells have been drilled and another 100 are in inventory. In 2007 investment in these Horseshoe Canyon assets will combine re-completions and new drills with an estimated 20 new wells to be put on production during the year.

Acme

Development planning of a project in the Horseshoe Canyon coals was well under way when Ember acquired the property in early March 2007. At year-end 2006, reserves were estimated at 27.4 bcf proved plus probable, rising to 33.6 bcf with the inclusion of possible reserves.

The initial development plan centres on installing sufficient plant and pipeline capacity to tie-in nine of 10 existing wells and 18 new drills to bring productive capacity to 3.0 mmcf/d. Additional upside exists from co-mingling gas from conventional sands in CBM wellbores. This project could be completed prior to year-end 2007, subject to financing.

OPERATIONS REVIEW

Land Holdings

December 31, 2006 (acres)	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
Ember CBM Rights						
Fenn-Big Valley	23,840	23,560	30,289	27,681	54,129	51,241
Manola	1,280	1,280	108,800	107,186	110,080	108,466
Matziwin	0	0	33,920	31,139	33,920	31,139
Rosalind	2,560	1,600	128,748	99,336	131,308	100,936
Total	**27,680**	**26,440**	**301,757**	**265,342**	**329,437**	**291,782**

Drilling Activity

The following table sets forth the gross and net CBM wells in which Ember participated during the year ended December 31, 2006.

	2006		2005	
	Gross	Net	Gross	Net
Fenn-Big Valley	**24**	**24**	36	36
Rosalind	**1**	**0.5**	2	1
Manola	**3**	**3**	6	6
Total	**28**	**27.5**	44	43

Production Volume by Field

The following table indicates the average daily production from each of the Corporation's core properties for the year ended December 31, 2006.

	December 31, 2006			December 31, 2005		
Field	Natural Gas *(mcf/d)*	BOE *(boe/d)*	%	Natural Gas *(mcf/d)*	BOE *(boe/d)*	%
Fenn-Big Valley	**4,118**	**686**	**88.5**	2,347	392	97.2
Rosalind	**81**	**13**	**1.7**	67	11	2.8
Manola	**456**	**76**	**9.8**	1	–	–
Total	**4,655**	**755**	**100.0**	2,415	403	100.0

Reserves – Forecast Prices and Costs

The following tables set forth Ember's reserves at December 31, 2006 as evaluated by Sproule Associates Limited.

Summary of Oil and Gas Reserves

(mmcfe)	Gross Reserves	Net Reserves
Natural gas		
Proved		
Developed producing	8,214.4	7,491.0
Developed non-producing	1,228.8	1,057.8
Undeveloped	5,586.0	5,097.6
Total proved	**15,029.2**	**13,646.4**
Probable	12,392.4	10,752.0
Total proved plus probable	**27,421.6**	**24,398.4**
Possible	13,242.2	10,746.9
Total proved plus probable plus possible	**40,663.8**	**35,145.3**

Net Present Value of Future Net Revenue of Oil and Gas Reserves

	Before Future Income Tax Expenses and Discounted at				
($000s)	0%	5%	10%	15%	20%
Proved					
Developed producing	41,211	35,986	32,014	28,908	26,419
Developed non-producing	5,862	5,120	4,543	4,082	3,706
Undeveloped	23,886	18,064	13,946	10,939	8,684
Total proved	**70,959**	**59,169**	**50,502**	**43,929**	**38,809**
Probable	42,056	28,041	19,321	13,568	9,582
Total proved plus probable	**113,015**	**87,210**	**69,823**	**57,497**	**48,391**
Possible	27,145	17,981	11,892	7,661	4,623
Total proved plus probable plus possible	**140,160**	**105,191**	**81,715**	**65,158**	**53,014**

	After Future Income Tax Expenses and Discounted at				
($000s)	0%	5%	10%	15%	20%
Proved					
Developed producing	41,211	35,985	32,014	28,908	26,419
Developed non-producing	5,862	5,120	4,543	4,082	3,706
Undeveloped	46,198	32,001	22,023	14,874	9,642
Total proved	**93,271**	**73,106**	**58,580**	**47,864**	**39,767**
Probable	60,013	38,031	24,204	15,109	8,875
Total proved plus probable	**153,284**	**111,137**	**82,784**	**62,973**	**48,642**
Possible	34,348	20,401	11,928	6,512	2,892
Total proved plus probable plus possible	**187,632**	**131,538**	**94,712**	**69,485**	**51,534**

Reserve Reconciliation – Gross Company

Gross Reserves *(mmcfe)*	Total Proved	Proved plus Probable	Proved plus Probable plus Possible
Natural gas			
December 31, 2005	8,799	15,730	15,730
Extensions	3,407	11,293	22,969
Improved recovery	–	–	–
Technical revisions	4,232	1,710	3,124
Discoveries	288	381	520
Acquisitions	–	–	–
Dispositions	–	–	–
Economic factors	–	–	–
Production	(1,698)	(1,698)	(1,698)
December 31, 2006	**15,028**	**27,416**	**40,645**

Finding and Development Costs

	Horseshoe Canyon Coals[4]		Mannville Coals[3]		Total Company	
Acquired assets July 7, 2005[5]	(1)	(2)	(1)	(2)	(1)	(2)
Proved	$ 8.07	$ 17.29	n/m	n/m	$ 14.94	$ 24.16
Proved plus probable	$ 5.14	$ 14.07	n/m	n/m	$ 9.52	$ 18.45
December 31, 2005						
Proved	$ 16.84	$ 14.69	$ 456.70	$ 456.70	$ 57.25	$ 55.31
Proved plus probable	$ 9.77	$ 7.48	$ 86.00	$ 98.90	$ 27.89	$ 29.24
December 31, 2006						
Proved	$ 14.90	$ 14.72	$ 144.90	$ 147.30	$ 26.40	$ 26.44
Proved plus probable	$ 11.66	$ 12.49	$ 24.40	$ 42.60	$ 15.63	$ 21.84
Inception to date						
Proved	$ 12.69	$ 15.68	$ 280.70	$ 282.30	$ 28.18	$ 31.10
Proved plus probable	$ 8.65	$ 12.05	$ 48.90	$ 65.60	$ 16.43	$ 22.42

(1) *Finding and development costs ($/boe) before future capital.*

(2) *Finding and development costs ($/boe) including future capital.*

(3) *2006 Horseshoe Canyon coal capital totals $18 million plus change in future capital of $1.3 million for proved plus probable reserves; Inception to date expenditures are $34.5 million plus $13.6 million in future capital for proved plus probable reserves.*

(4) *2006 Mannville coal capital totals $16.9 million plus change in future capital of $12.6 million for proved plus probable reserves; Inception to date expenditures are $46.8 million plus $16.0 million in future capital for proved plus probable reserves.*

(5) *Acquired assets were assigned carrying values of $15.2 million, $8.2 million was assigned to Horseshoe Canyon coals and $7 million was assigned to Mannville coals.*

Acme Property Reserves – Forecast Prices and Costs

The following tables set forth the reserves for the Acme Property at December 31, 2006 as evaluated by McDaniel & Associates, using prices provided by Sproule Associates Limited.

Summary of Oil and Gas Reserves

(mmcfe)	Gross Reserves	Net Reserves
Natural gas		
Proved		
Developed producing	0	0
Developed non-producing	0	0
Undeveloped	14,152.7	11,554.6
Total proved	**14,152.7**	**11,554.6**
Probable	13,281.5	10,735.1
Total proved plus probable	**27,434.2**	**22,289.7**
Possible	6,177.2	4,975.7
Total proved plus probable plus possible	**33,611.4**	**27,265.4**

Net Present Value of Future Net Revenue of Oil and Gas Reserves

	Before Future Income Tax Expenses and Discounted at				
($000s)	0%	5%	10%	15%	20%
Proved					
Developed producing	0	0	0	0	0
Developed non-producing	0	0	0	0	0
Undeveloped	29,398	18,939	11,736	6,694	3,091
Total proved	**29,398**	**18,939**	**11,736**	**6,694**	**3,091**
Probable	32,380	19,633	11,630	6,445	2,974
Total proved plus probable	**61,778**	**38,571**	**23,366**	**13,139**	**6,065**
Possible	20,818	11,997	7,166	4,380	2,687
Total proved plus probable plus possible	**82,596**	**50,569**	**30,532**	**17,519**	**8,752**

	After Future Income Tax Expenses and Discounted at				
($000s)	0%	5%	10%	15%	20%
Proved					
Developed producing	0	0	0	0	0
Developed non-producing	0	0	0	0	0
Undeveloped	22,312	13,937	8,077	3,935	958
Total proved	**22,312**	**13,937**	**8,077**	**3,935**	**958**
Probable	22,619	13,153	7,105	3,149	487
Total proved plus probable	**44,931**	**27,090**	**15,182**	**7,084**	**1,445**
Possible	14,771	8,391	4,855	2,808	1,564
Total proved plus probable plus possible	**59,702**	**35,481**	**20,037**	**9,892**	**3,009**

Proforma Reserves – Forecast Prices and Costs

The following tables set forth Ember's reserves including the Acme Property (Proforma) at December 31, 2006 as evaluated by Sproule Associates Limited and McDaniel & Associates, using prices provided by Sproule Associates Limited.

Summary of Oil and Gas Reserves

(mmcfe)	Gross Reserves	Net Reserves
Natural gas		
Proved		
Developed producing	8,214.4	7,491.0
Developed non-producing	1,228.8	1,057.8
Undeveloped	19,738.7	16,652.2
Total proved	**29,181.9**	**25,201.0**
Probable	25,673.9	21,487.1
Total proved plus probable	**54,855.8**	**46,688.1**
Possible	19,419.4	15,722.6
Total proved plus probable plus possible	**74,275.2**	**62,410.7**

Net Present Value of Future Net Revenue of Oil and Gas Reserves

	Before Future Income Tax Expenses and Discounted at				
($000s)	0%	5%	10%	15%	20%
Proved					
Developed producing	41,211	35,986	32,014	28,908	26,419
Developed non-producing	5,862	5,120	4,543	4,082	3,706
Undeveloped	53,284	37,003	25,682	17,633	11,775
Total proved	**100,357**	**78,109**	**62,239**	**50,623**	**41,900**
Probable	74,436	47,674	30,951	20,013	12,556
Total proved plus probable	**174,793**	**125,782**	**93,190**	**70,636**	**54,456**
Possible	47,963	29,978	19,058	12,041	7,310
Total proved plus probable plus possible	**222,756**	**155,760**	**112,248**	**82,677**	**61,766**

	After Future Income Tax Expenses and Discounted at				
($000s)	0%	5%	10%	15%	20%
Proved					
Developed producing	41,211	35,985	32,014	28,908	26,419
Developed non-producing	5,862	5,120	4,543	4,082	3,706
Undeveloped	46,198	32,001	22,023	14,874	9,642
Total proved	**93,271**	**73,106**	**58,580**	**47,864**	**39,767**
Probable	60,013	38,031	24,204	15,109	8,875
Total proved plus probable	**153,284**	**111,137**	**82,784**	**62,973**	**48,642**
Possible	14,771	8,391	4,855	2,808	1,564
Total proved plus probable plus possible	**59,702**	**35,481**	**20,037**	**9,892**	**3,009**

Contingent Resource Estimate

In addition to conducting a reserve evaluation for the year ended December 31, 2006, the Company retained Sproule Associates Limited ("Sproule"), an independent engineering firm, to provide an estimate of CBM contingent resources for Ember's undeveloped lands. Due to technical and economic uncertainty these resources are categorized as contingent at this time. The contingencies in this classification include, but are not limited to: productivity, capital costs, operating costs, future gas prices and project timing. Ember's strategy is to convert these contingent resources into the reserve category by demonstrating their commercial viability.

In response to discussions with regulatory authorities, Sproule has made changes in its previously employed methodology used to estimate contingent resources. The intent of these changes is to provide a better representation of the range of contingent resources in the future.

Mannville Coals

Original gas-in-place ("OGIP") for each section was estimated volumetrically based on net pay from existing logs. Average gas content and coal density specific to each area was then applied to provide an OGIP estimation. Changes were made to the assignment of OGIP in the low, best and high cases based on the inclusion of individual coal seams.

The low case includes the net pay in the major seam of an area of potential development in the OGIP calculation. The recovery factor is then estimated based on engineering judgment for each area. The recovery factors assigned in the low case range from 5% – 40%.

The best case considers the net pay from the major and secondary coal seams where the development of the secondary coal seam was considered reasonable. The recovery factors assigned in the best case range from 20% – 45%.

The high case calculation of OGIP includes all coals seams greater than 0.9 metres in thickness. The recovery factors assigned in the high case range from 40% – 60%.

The report then estimates contingent resources based on calculated OGIP and assigned recovery factors.

The following table summarizes Sproule's contingent resource estimates as at December 31, 2006:

	Company Interest Original Gas-in-Place *(bcf)*			Company Interest Technically Recoverable Resources *(bcf)*		
Area/Prospect	Low	Best	High	Low	Best	High
Mannville Coals						
Fenn-Big Valley	34.4	57.8	78.7	1.7	11.6	31.5
Manola	189.1	317.9	402.1	75.6	143.1	241.2
Rosalind	210.7	331.2	449.2	42.3	99.8	224.5
Total Mannville	434.1	706.9	929.9	119.7	254.4	498.2
Horseshoe Canyon Coals						
Fenn-Big Valley	5.8	5.8	5.8	2.2	3.0	3.4
Total	**439.9**	**712.7**	**935.7**	**121.9**	**257.4**	**501.6**

CBM development at Corbett Creek, operated by Trident Exploration and Nexen, is the nearest analogous project with commercial production to Ember's Manola Mannville coal CBM property. This Mannville coal CBM project is approximately 40 kilometres northwest of Ember's Manola property. The nearest analogous proven production to the Rosalind and Fenn-Big Valley Mannville coal CBM properties is Ember's Rosalind producers. This Mannville coal CBM development is within the Rosalind property and is approximately 80 kilometres north of Ember's Fenn-Big Valley property.

The vertical depths of Ember's Mannville CBM contingent resources are approximately 925 metres at Manola, 1,075 metres at Rosalind and 1,250 metres at Fenn-Big Valley.

The estimated cost to drill, complete and equip a horizontal well in the Mannville coal is approximately $1,500,000.

Ember has been and will continue to conduct appraisal drilling and testing on selected lands in the Mannville coal over the next several years. The next phase of drilling has commenced in the first quarter of 2007. Pending confirmation of appropriate reservoir quality, Ember expects to develop the contingent resources in all three areas during the next five to 20 years.

Ember's lands are reasonably close to pipelines and facilities owned by Ember, other operators or distribution companies. Ember will consider the appropriate transportation and marketing strategy at the time of development of the Mannville coal contingent resources in the three operating areas. At this time, Ember does not believe the marketing of the potential gas volumes will be a concern.

In management's opinion it is too early to estimate the chance of success for the appraisal programs of the Mannville coal contingent resources. By NI 51-101 definitions, these resources do not have the certainty at this time to be classified as reserves. For this reason, the evaluation conducted by Sproule presents a range of technically recoverable resources for each area. While it appears that production is possible from these formations and the gas-in-place can be reasonably estimated, the production rates and recoveries are still undetermined and have, therefore, been estimated as low, best and high contingent resources as presented in the Sproule evaluation.

MD&A

The following Management Discussion and Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Ember Resources Inc. ("Ember" or the "Company") for the year ended December 31, 2006. Ember was incorporated on June 3, 2005 and commenced commercial operations on July 7, 2005. The MD&A includes comparisons for the period from commencement of operations July 7, 2005 to December 31, 2005 which will hereafter be referred to as the period ended December 31, 2005 or the six-month period ended December 31, 2005. Certain amounts throughout the report are referred to as restated, and should be read in conjunction with the restatement summary listed under Change in Accounting Policies. The following information has been prepared by management and should be read in conjunction with the audited financial statements for the period ended December 31, 2006, dated March 14, 2007. The reporting and measurement currency is the Canadian dollar. This MD&A is dated as of March 14, 2007.

Forward-looking Statements

Statements throughout this MD&A that are not historical facts may be considered "forward-looking statements." Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management.

Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and may only be updated as required by law should material events or circumstances arise.

Ember's Business

Ember is a natural gas exploration and production company focused on extraction of natural gas derived from coalbed methane ("CBM") in the province of Alberta, Canada. The Company operates in four principal geographic areas of Alberta: Acme located northeast of Calgary; Fenn-Big Valley located northeast of Calgary; Rosalind located southeast of Edmonton; and Manola located northwest of Edmonton. At December 31, 2006 the Company held interests in 292,000 net acres of developed and undeveloped land, and produced at an average rate for the year ended December 31, 2006 of 4,655 mcf/d (776 boe/d).

History

In July 2005, Ember, Thunder Energy Inc. ("Thunder"), Mustang Resources Inc. ("Mustang") and Forte Resources Inc. ("Forte") completed a Plan of Arrangement (the "Arrangement"). Under the Arrangement, Ember acquired certain natural gas rights associated with coal from Thunder and became engaged in the acquisition, development and production of CBM gas reserves. Ember assumed all liabilities, including environmental liabilities, relating to the transferred assets.

In July 2005, Ember completed a $6 million private placement consisting of 3,108,808 common shares in the capital of Ember ("Common Shares") issued at $1.93 per share to employees, directors and service providers of Ember. The Common Shares are subject to escrow agreements which allow for release in equal amounts on January 9, 2006, July 10, 2006 and July 5, 2007.

On August 31, 2005, Ember completed a bought deal financing of 7,000,000 Common Shares at a price of $7.15 per share for gross proceeds of $50,050,000.

In April 2006, Ember finalized arrangements to increase its credit facility to $15 million from $2.5 million. The facility was renewed in October 2006 with the next review scheduled for April 2007.

Since inception Ember has drilled 60 gross (60 net) Horseshoe Canyon wells, and 12 gross (10.5 net) Mannville wells. The Company has increased production from 2,336 mcf/d (389 boe/d) at inception to current rates of 6,500 mcf/d (1,083 boe/d), an increase of 178%.

On March 1, 2007, the Company acquired coalbed methane natural gas assets from a private company for cash consideration of $8.75 million. The assets located in the Acme area of Alberta consist of 10 developed non-producing gas wells, and a 70.5% operated interest in 16,960 gross acres of land (11,960 net).

Also on March 1, 2007, the Company issued 5,660,400 Common Shares by way of a private placement, at $2.65 per share for cash consideration of $15.0 million. Proceeds of the issue were used to fund the $8.75 million natural gas asset acquisition with the balance to be used to reduce debt and for working capital purposes.

2006 Review

The following are highlights of the year ended December 31, 2006.

Mannville Commercialization

Ember has made significant strides towards commercialization of its Mannville coal resource. Continuous improvements to existing technologies and the application of new technologies have yielded positive results from Mannville horizontal wells during the year. Some of that success has been recognized by our independent engineers with a total of 0.8 bcf proven, 5.5 bcf of probable and 11.2 bcf of possible reserves recorded at year end,

Production Growth

Average production increased 94% to 4.655 mmcf/d from 2.405 mmcf/d in 2005.

Production was up 23% to 6.107 mmcf/d during the fourth quarter 2006 from the third quarter's 4.972 mmcf/d, the fourth consecutive double-digit quarterly production growth.

All of Ember's production growth has come from the drill bit.

100% Drilling Success

During the year, Ember drilled a total of 28 CBM wells (27.5 net), all successful. Twenty four net wells were drilled at Fenn-Big Valley as part of an ongoing Horseshoe Canyon coal development program. Four horizontal wells (3.5 net) were drilled in Mannville coal projects, three at Manola and one at Rosalind.

Financial Performance

Funds from operations for the year ended December 31, 2006 were $4,627,000 or $0.15 per share diluted as compared to $3,016,000 or $0.10 per share diluted in the six-month period ended December 31, 2005. Production gains were offset by the decline in gas prices and higher operating and general and administrative costs from the same period last year.

The Company recorded a net loss of $3,512,000 for the year ended December 31, 2006 or $(0.12) per share diluted as compared to a $1,122,000 net income or $0.04 per share diluted in the six-month period ended December 31, 2005.

Capital expenditures for the year ended December 31, 2006 totaled $34.8 million resulting in a working capital deficit of $11.1 million at the end of the year. This working capital deficit represents a 74% draw on available lines of credit of $15 million which have been recently reviewed and the agreement terms have been extended through to the next scheduled review period of April 2007. Subsequent to the year end, the Company raised $15.0 million of financing through the issue of equity before share issue costs. Of this amount, $8.75 million was used for an asset acquisition with the balance to be used for working capital.

Change in Accounting Policies

In July 2006 Ember changed its accounting policies governing direct and indirect general and administrative expenses, stock-based compensation (SBC), and pre-production costs associated with wells drilled into the Mannville zone. Previously the Company had expensed all these costs. The change results in capitalization of a portion of these costs and inclusion in the full cost capital pool subject to depletion. The changes have been applied retroactively with restatement of results back to commencement of operations in July 2005.

The changes are as follows:

General and Administrative (G&A) and Stock-based Compensation (SBC)

Effective July 1, 2006, Ember changed its accounting policy for direct and indirect G&A and SBC expenses in order to more accurately reflect the cost of bringing assets on production. Previously Ember expensed all direct G&A expenses and SBC expenses related to acquisition and development activities. Under the new policy, direct G&A costs together with the related portion of the SBC expenses for the impacted employees are being included in the full cost pool and depleted. The effect of this change in accounting policy has been recorded retroactively with restatement of the prior period.

Capitalized Mannville Pre-production Expenses

Effective July 1, 2006, Ember changed its accounting policy for initial production costs related to Ember's drilling and production operations in Mannville zones. Previously, the Company recorded initial production activities (including all revenues and expenses) for all Mannville wells through the income statement as is typical for more conventional natural gas operations. Significant gas production and revenue generation does not occur in Mannville zones until dewatering of the coals occurs. Until commercial gas production and revenue generation commences, Ember believes that a policy of capitalizing these pre-production costs (including all expenses and incidental revenue) on a well by well basis, is more representative of the costs of bringing assets on production. Under the new policy, certain net pre-production costs including expenses and incidental revenue will be included in the full cost pool and depleted. The effect of this change in accounting policy has been recorded retroactively with restatement of prior periods.

The results of the changes are as follows:

Six months ended December 31, 2005 ($000s)	Amount previously reported	Restatement adjustment	Restated amount	Effect on earnings and retained earnings	Effect on funds from operations
Natural gas sales	4,424	(20)	4,404	(20)	(20)
Royalties	360	(6)	354	6	6
Operating costs	758	(137)	621	137	137
G&A	1,131	(534)	597	534	534
SBC	808	(282)	526	282	0
Depreciation and depletion	1,336	32	1,368	(32)	0
Property and equipment	46,482	907	47,389	0	0
Production volumes *(mcf)*	444,417	(1,810)	442,607	0	0
				907	**657**

Net Loss and Funds from Operations

Net loss was $3.5 million for the year ended December 31, 2006 compared to net income of $1.1 million for the six-month period ended December 31, 2005. Funds from operations were $4.6 million for the year ended December 31, 2006 compared to $3.0 million for the six-month period ended December 31, 2005.

($000s)	Year ended December 31, 2006	Period ended December 31, 2005	Percentage change
		(Restated)	
Net income (loss) for the period	**(3,512)**	1,122	(413)
Add items not involving cash			
Depreciation, depletion and accretion	**6,211**	1,368	354
Stock-based compensation expense	**1,928**	526	267
Funds from operations	**4,627**	3,016	53

Netback Analysis

The following tables summarize Ember's operating netback and funds from operations on a mcf and boe basis for the year ended December 31, 2006, and the six months ended December 31, 2005.

($/mcf)	Year ended December 31, 2006	Period ended December 31, 2005	Percentage change
		(Restated)	
Natural gas revenues	**6.13**	9.95	(38)
Royalties	**(0.62)**	(0.80)	(23)
	5.51	9.15	(40)
Operating expense	**(1.54)**	(1.40)	10
Transportation expense	**(0.21)**	(0.29)	(28)
Operating netback	**3.76**	7.46	(50)
Interest and other income	**0.15**	0.78	(81)
General and administrative	**(1.15)**	(1.35)	(15)
Interest expense	**(0.02)**	0.00	N/A
Capital taxes	**0.00**	(0.08)	(100)
Funds from operations	**2.74**	6.81	(60)

($/boe)			
Natural gas revenues	**36.77**	59.70	(38)
Royalties	**(3.73)**	(4.79)	(22)
	33.04	54.91	(40)
Operating expense	**(9.24)**	(8.42)	10
Transportation expense	**(1.29)**	(1.72)	(25)
Operating netback	**22.51**	44.77	(50)
Interest and other income	**0.88**	4.71	(81)
General and administrative	**(6.91)**	(8.11)	(15)
Interest expense	**(0.14)**	0.00	N/A
Capital taxes	**0.00**	(0.49)	(100)
Funds from operations	**16.34**	40.88	(60)

Product Pricing

Natural gas	Year ended December 31, 2006	Period ended December 31, 2005	Percentage change
		(Restated)	
NYMEX average price *(US$/mcf)*	**6.63**	11.14	(40)
AECO basis *(US$/mcf)*	**(0.95)**	(2.32)	(59)
Average foreign exchange rate *(Cdn$/US$)*	**0.8820**	0.8425	5
AECO average price *(Cdn$/mcf)*	**6.45**	10.43	(38)
Corporate differential *(Cdn$/mcf)*	**(0.32)**	(0.48)	(33)
Ember average price *(Cdn$/mcf)*	**6.13**	9.95	(38)
Transportation *(Cdn$/mcf)*	**(0.21)**	(0.29)	(28)
Ember wellhead price *(Cdn$/mcf)*	**5.92**	9.66	(39)

In 2006, gas prices decreased in response to lower demand compared to fall 2005, as North America experienced a warmer than normal winter. As a result, natural gas storage levels remained at high levels throughout the year causing natural gas prices to drop to two-year lows.

The longer-term outlook for natural gas prices remains strong as futures prices are higher in 2007 and beyond as the market anticipates current imbalances in supply and demand to adjust. Price volatility remains the theme for natural gas as the market reacts quickly to changing news and weather forecasts.

CBM is in all material respects the same as natural gas. It varies in heating content and other elements contained within the produced gas stream. For example, Ember's CBM contains no harmful H_2S and minor amounts of CO_2 which are removed during processing. Ember currently receives pricing that typically averages 5% less than the weighted average of AECO (based on Ember's weighted average volumes) in Canadian dollars which reflects the lower heating content of CBM gas.

Revenue and Production

	Year ended December 31, 2006	Period ended December 31, 2005	Percentage change
		(Restated)	
Natural gas revenue *($000s)*	**10,414**	4,404	136
Average natural gas production *(mcf/d)*	**4,655**	2,405	94
Average natural gas production *(boe/d)*	**776**	401	94
Total natural gas production *(mcf)*	**1,699,096**	442,607	284
Total natural gas production *(boe)*	**283,183**	73,768	284

Ember's total production increased by 284% in 2006 compared to the six-month period in 2005 as a result of continuing drilling programs. Average prices decreased by 38% over the same period resulting in a 136% revenue increase. The production increase was attributed primarily to the Horseshoe Canyon project at Fenn-Big Valley where Ember has drilled over 60 wells from 2005 to 2006.

Horseshoe Canyon production increased 77% from 2,330 mcf/d (388 boe/d) in the six months ended December 31, 2005 to average 4,118 mcf/d (686 boe/d) in the year ended December 31, 2006. The Mannville projects in Manola and Rosalind that are not being capitalized increased production by 616% to an average of 537 mcf/d (90 boe/d) in 2006 from 75 mcf/d (13 boe/d) in the six-month period ended December 31, 2005.

The Company's current production is derived primarily from its Fenn-Big Valley area which produces from coals in the Horseshoe Canyon formation. Over the long term, it is forecast that Ember's production will shift from Horseshoe Canyon dominated, to a blend that includes Mannville formations. Characteristics of Mannville production include wells that require dewatering prior to peak production rates and wells that have higher capital costs to drill. Once dewatered, these wells are expected to produce at higher daily rates than Horseshoe Canyon wells.

Royalties

($/mcf)	Year ended December 31, 2006	Period ended December 31, 2005	Percentage change
		(Restated)	
Total natural gas royalties *($000s)*	**1,057**	353	199
Crown royalties per unit	**0.58**	0.72	(19)
Freehold royalties per unit	**0.04**	0.08	(50)
Total royalties per unit	**0.62**	0.80	(23)
Royalties as a % of revenue	**10.1**	8.0	26
($/boe)			
Total natural gas royalties *($000s)*	**1,057**	353	199
Crown royalties per unit	**3.46**	4.32	(20)
Freehold royalties per unit	**0.27**	0.47	(43)
Total royalties per unit	**3.73**	4.79	(22)
Royalties as a % of revenue	**10.1**	8.0	26

Royalties are calculated and paid based on production and revenue, net of associated transportation cost. The Company's current base of wells is primarily on Crown lands. Crown royalty rates vary with productivity, with reduced rates for wells that average less than 700 mcf/d (117 boe/d). Ember's production is primarily from Horseshoe Canyon wells which initially average 75-125 mcf/d per well, resulting in royalty rates averaging approximately 10%.

Operating and Transportation Expense

	Year ended December 31, 2006	Period ended December 31, 2005	Percentage change
		(Restated)	
Total operating expenses *($000s)*	**2,615**	621	321
Horseshoe Canyon	**1,926**	594	224
Mannville	**689**	27	2,452
Transportation expense *($000s)*	**365**	127	187
($/mcf)			
Total operating expenses	**1.54**	1.40	10
Horseshoe Canyon	**1.28**	1.38	(7)
Mannville	**3.51**	2.00	76
Transportation expense	**0.21**	0.29	(28)
($/boe)			
Total operating expenses	**9.24**	8.42	10
Horseshoe Canyon	**7.68**	8.28	(7)
Mannville	**21.06**	12.00	76
Transportation expense	**1.29**	1.72	(25)

Operating costs per unit averaged $1.54/mcf ($9.24/boe) for the 2006 year compared with $1.40/mcf ($8.42/boe) for the 2005 period. Operating costs on a per unit basis have increased from 2005 as Ember commenced producing Mannville wells in 2006.

CBM operating costs vary between Horseshoe Canyon and Mannville production. Horseshoe Canyon wells produce gas immediately and do not require dewatering to reach peak production levels. Unit operating costs from this formation have a consistent profile when wells commence production. Mannville wells require dewatering prior to reaching peak production. As a result, operating costs on a per unit basis are initially high, but typically decrease as water production declines and gas production increases. Ember is now capitalizing certain pre-production Mannville costs to better reflect the cost of bringing these wells on production.

Operating costs for Ember's Fenn-Big Valley wells (Horseshoe Canyon) averaged approximately $1.28/mcf ($7.68/boe) for the 2006 year compared with $1.38/mcf ($8.28/boe) in 2005. This decline on a per unit basis is attributable to higher production volumes and efforts being made by Ember to streamline field operations.

The Company's Rosalind and Manola wells (Mannville) presently incur higher operating costs with relatively low gas production rates. Operating costs for Mannville production averaged $3.51/mcf ($21.06/boe) for 2006 compared with $2.00/mcf ($12.00/boe) for 2005. Unit operating costs over the long term are expected to decline as Mannville gas production increases and water handling costs decrease. In the near term, average unit operating costs for Mannville wells will be influenced by the number of new wells put on production, production rates from such wells and the average dewatering time of all Mannville wells.

Transportation expense relates to costs of transporting Ember's natural gas production on major pipelines. This rate has declined to the range of $0.21/mcf ($1.29 /boe) as the Company has experienced competitive market rates.

During the third quarter, 2006 Ember changed its accounting policies governing general and administrative expenses, stock-based compensation, and pre-production costs associated with wells drilled into the Mannville zone (see Change in Accounting Policies).

Depletion, Depreciation and Accretion (DD&A)

	Year ended December 31, 2006	Period ended December 31, 2005	Percentage change
		(Restated)	
DD&A expense *($000s)*	**6,211**	1,368	354
$ per mcf	**3.66**	3.09	18
$ per boe	**21.94**	18.55	18

During 2006, depletion and depreciation of capital assets and the accretion of the asset retirement obligations increased by 354% to $6.2 million from $1.4 million during the six-month period ended December 31, 2005. The increase was primarily due to a 284% production increase and an 18% increase in the per unit DD&A rate from $18.55/boe to $21.94/boe.

Ember excluded $37.0 million of unproved asset costs from the depreciation and depletion calculation in the fourth quarter of 2006. These costs represent land and drilling costs for unproved properties, some of which are expected to be assigned reserves in the future, at which time these costs will be subject to depletion. During the fourth quarter of 2006 the depletion base also included $8.4 million of estimated future development costs related to proved undeveloped reserves that form a key part of Ember's reserve base.

Asset base for depletion purposes *($000s)*	Three months ended December 31, 2006	Three months ended December 31, 2005	Percentage change
Total book carrying value of assets	**79,100**	46,804	69
Less: Unproven properties	**(37,031)**	(30,169)	23
Add: Future development costs	**8,413**	8,351	1
Total assets subject to depletion	**50,482**	24,986	102

General and Administrative Expenses (G&A)

($000s)	Year ended December 31, 2006	Period ended December 31, 2005	Percentage change
		(Restated)	
Gross G&A expenses	**3,249**	1,179	176
Indirect capitalized G&A	**(654)**	(229)	186
Capital overhead recoveries	**(637)**	(353)	80
Net G&A expense	**1,958**	597	228
$ per mcf	**1.15**	1.35	(15)
$ per boe	**6.91**	8.11	(15)

General and administrative expenses totaled $1.96 million or $1.15/mcf ($6.91/boe) for the year ended December 31, 2006 compared with $0.6 million or $1.35/mcf ($8.11/boe) for the six-month period ended December 31, 2005. During 2006, Ember continued to maintain management, technical and support teams to support both current and future activity and production growth. At year end 2006, Ember employed 19 full-time employees. With increased drilling activity and production growth, per unit costs are expected to decline accordingly.

Indirect G&A expenses totaling $654,000 ($229,000 – 6 months ended December 31, 2005) were capitalized during the year ended December 31, 2006. During the third quarter 2006 Ember changed its accounting policies governing general and administrative expenses, stock-based compensation, and pre-production costs associated with wells drilled into the Mannville zone (see Change in Accounting Policies).

Stock-based Compensation

($000s)	Year ended December 31, 2006	Period ended December 31, 2005	Percentage change
		(Restated)	
Gross SBC costs	**3,027**	808	275
Capitalized SBC	**1,099**	282	290
Net SBC expense	**1,928**	526	267
$ per mcf	**1.13**	1.19	(5)
$ per boe	**6.81**	7.13	(5)

The Company's stock-based compensation plans provide current employees, officers, directors, and consultants with the right to elect to receive Common Shares through both a Performance Share plan and a regular stock option plan. Stock-based compensation expense totaled $1,928,000 for the year ended 2006 compared to $526,000 for the six-month period in 2005. Ember has a total of 1,293,000 stock options issued at an average exercise price of $7.15 per share and 1,370,000 performance shares issued as of December 31, 2006.

During the third quarter 2006 Ember changed its accounting policies governing general and administrative expenses, stock-based compensation, and pre-production costs associated with wells drilled into the Mannville zone (see Change in Accounting Policies).

Income Taxes

Ember is not currently taxable, and the Company does not anticipate paying current income tax over the next several years. The Company's current tax rate is a combined Canadian federal and Alberta provincial rate of 34.5%.

Ember has deductible tax pools and share issue costs totaling $105.7 million which are available to shelter future taxable income. The Company has unrecorded potential future income tax assets for accounting purposes totaling $9.8 million resulting primarily from deductible temporary differences. These differences are the result of deductions for tax purposes in excess of deductible amounts for accounting purposes. The Company has not recorded a future income tax asset at this time as it does not currently meet the conditions to demonstrate taxable operations. Accordingly, Ember has taken a full valuation allowance against the future income tax asset balance.

The following table outlines carry-forward tax deductible amounts.

($000s)	**Year ended December 31, 2006**	Period ended December 31, 2005	Percentage change
		(Restated)	
COGPE	**48,524**	51,580	(6)
CDE	**21,782**	10,189	114
CCA classes	**15,703**	8,041	95
Share issue costs	**2,282**	2,923	(22)
Non capital loss carry-forwards	**17,419**	3,263	434
Total	**105,710**	75,996	39

Capital Expenditures

($000s)	**Year ended December 31, 2006**	Period ended December 31, 2005	Percentage change
		(Restated)	
Land and property acquisitions	**2,472**	13,342	(81)
Drilling and completions	**18,891**	12,310	53
Equipment and facilities	**11,516**	5,285	118
Capitalized costs (including G&A and Mannville pre-production)	**2,008**	657	206
Asset additions for cash (including abandonment expense)	**34,887**	31,594	10
Non cash asset additions (including ARO and SBC)	**1,488**	17,101	(91)
Total asset additions	**36,375**	48,695	(25)

For the year ended December 31, 2006, capital expenditures totaled $36.4 million, all of which were funded through working capital, cash flow, and debt facilities. The Company participated in a Crown land sale in late 2005 acquiring over $12 million of additional acreage. Ember's land expenditures decreased in 2006 as the Company was less active at Crown sales reflecting less activity generally for CBM lands in Alberta.

During 2006, Ember expended $18.9 million and drilled 28 gross (27.5 net) wells and completed nearly 30 wells that carried over from the Company's drilling program in 2005. This amount also includes funds expended on remediation work for wells drilled in 2005. This activity compares to $12.7 million spent in the six-month period ended December 31, 2005 to drill 44 gross (43 net) wells, many of which were completed in 2006.

During 2006, the Company incurred $11.5 million of expenditures on pipelines, processing and sales facilities for its properties mainly in the Fenn-Big Valley area. This represents and increase from the comparative period in 2005 where expenditures in mainly the Fenn-Big Valley area totaled $5.3 million.

Quarterly Results

Ember's quarterly summary for the periods from commencement of operations, July 7, 2005 to date are:

($000s, except per share amounts and volumes)	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005
			(Restated)	*(Restated)*	*(Restated)*	*(Restated)*
Sales gas *(mmcf/d)*	**6.107**	**4.972**	**4.225**	**3.282**	2.475	2.336
Average natural gas price *($/mcf)*	**6.74**	**5.31**	**5.72**	**6.77**	11.55	8.25
Gross revenue	**3,784**	**2,431**	**2,200**	**1,999**	2,630	1,774
Royalty expense	**227**	**244**	**360**	**226**	239	115
Operating and transportation expense	**869**	**744**	**840**	**527**	409	339
G&A expense	**602**	**324**	**533**	**499**	384	213
SBC expense	**435**	**472**	**519**	**502**	214	312
DD&A expense	**1,921**	**1,730**	**1,433**	**1,127**	704	664
Net earnings (loss)	**(300)**	**(1,040)**	**(1,427)**	**(745)**	925	185
– per share basic and diluted	**(0.01)**	**(0.04)**	**(0.05)**	**(0.02)**	0.03	0.01
Funds from operations	**2,057**	**1,162**	**525**	**884**	1,855	1,161
– per share basic	**0.07**	**0.03**	**0.02**	**0.03**	0.06	0.05
– per share diluted	**0.07**	**0.03**	**0.02**	**0.03**	0.06	0.04
Property and equipment additions	**6,007**	**12,204**	**5,078**	**11,553**	26,659	4,935
Outstanding shares *(000's)*	**30,415**	**30,415**	**30,417**	**30,419**	30,419	30,432

Liquidity and Capital Resources

Capitalization and Capital Resources

Share Capital *(000's)*	**December 31, 2006**
Weighted average outstanding Common Shares (1)	
– basic	**30,417**
– diluted	**30,417**
Outstanding securities at December 31, 2006	
Common Shares	**30,415**
Common Share options	**1,293**
Performance Shares	**1,370**
Outstanding securities at February 28, 2007	
Common Shares	**36,075**
Common Share options	**1,483**
Performance Shares	**1,370**

(1) *Per share information is calculated on the basis of the weighted average number of Common Shares outstanding during the fiscal year. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted to Common Shares. Diluted per share information is calculated using the treasury stock method which assumes that any proceeds received by the Company upon exercise of in-the-money stock options, plus the unamortized stock-based compensation expense would be used to buy back Common Shares at the average market price for the period. Performance Shares (contingently issuable shares) are calculated based on the shares that would be issuable, if the end of the reporting period were the end of the contingency period, and the result would be dilutive.*

Total Market Capitalization

The Company's market capitalization at December 31, 2006 was $78 million.

($000s, except per share amount)	December 31, 2006
Common shares outstanding	30,415
Share price [1]	2.57
Total market capitalization	**78,167**

[1] *Represents the closing price on the TSX on December 29, 2006.*

Capital Resources

At December 31, 2006, the Company had a working capital deficiency of $11.0 million. Ember also has a credit facility totaling $15.0 million. Subsequent to the year end, Ember closed a financing that raised $15 million cash through a private placement at $2.65 per share. Concurrent with the financing, Ember purchased CBM assets in the Acme area of Alberta for $8.75 million cash.

The Company's investing activities consisted primarily of expenditures on land, drilling completions, equipping, facilities and tie-ins of projects drilled in 2006, and some expenditures for 2005 projects concluded in 2006. These activities were funded by funds from operations and existing working capital.

Current Available Resources

($000s)	
Capital resources	
Working capital deficiency December 31, 2006	(11,095)
Bank debt available	15,000
Financing completed March 1, 2007	15,000
Asset acquisition March 1, 2007	(8,750)
Total capital resources available	**10,155**

Ember estimates total 2007 capital spending of $30 million, including the Acme acquisition. Funding for this program will come from cash flow, existing lines of credit and the private placement completed in March. Capital will be deployed to the Mannville projects with an estimated nine (7.5 net) new horizontal wells to be drilled this year; investment in Horseshoe Canyon assets at Fenn-Big Valley will combine re-completions and new drills with an estimated 20 new wells to be put on production during the year. Production is estimated to average 7.5 mmcf/d for the full year with a target exit rate of 9 mmcf/d by year end. Capital programs could increase by a further $15 million if the first phase of the Acme project is completed in the current year. Exit rates would increase to 12-12.5 mmcf/d with minimal impact to full year averages as additions are expected to occur late in 2007. Should gas prices, production levels cash flow or capital spending deviate from expected levels, Ember will adjust its capital program as necessary, and will also consider other funding mechanisms.

Bank Facility

At December 31, 2006, Ember had available a $15.0 million credit facility with a Canadian chartered bank. This borrowing base facility is determined based on, among other things, the Company's then current reserve report, results of operations, current and forecasted commodity prices and the current economic environment. Under the terms of the lending agreement, the facility will be reviewed by the bank in April 2007.

Working Capital

The Company will continue to monitor its counterparty credit positions to mitigate any potential credit losses. All revenues are subject to normal collection risk. For activities conducted with joint venture partners, Ember collects its partners' share of capital and operating expenses on a monthly basis. At December 31, 2006, Ember had no material accounts receivable that it deemed uncollectible.

Accounts payable and accrued liabilities consist of amounts payable to suppliers relating to head office, field operating activities and capital spending activities. These invoices are processed within the Company's normal payment period.

Ember continuously manages the pace of its capital spending program by monitoring forecasted production and commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of altering capital spending activity levels.

Accounting Policies and Estimates and Business Risks

Recent Accounting Pronouncements

Management is assessing the following new and revised accounting pronouncements that have been issued but which are not yet effective:

For the year ending December 31, 2007, Ember will be required to adopt Section 1530 *Comprehensive Income*, Section 3251 *Equity*, Section 3855 *Financial Instruments -- Recognition and Measurement*, and Section 3865 *Hedges issued by the CICA in January 2005*. Under the new standards: a new financial statement, Comprehensive Income has been introduced which will provide for certain gains and losses, including foreign currency translation adjustment and other amounts arising from changes in fair value to be temporarily recorded outside the income statement. In addition, all financial instruments, including derivatives are to be included on Ember's balance sheet and measured at fair values in most cases. Requirements for hedge accounting have been further clarified. Ember continues to monitor the impact of this section on the financial statements.

As of January 1, 2007, Ember is required to adopt revised CICA Section 1506, *"Accounting Changes"*, which provides expanded disclosures for changes in accounting polices, accounting estimates and corrections of errors, which were issued in July 2006. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of Generally Accepted Accounting Principles (GAAP) or the change results in more relevant and reliable information. Ember does not expect application of this revised standard to have a material impact on its financial statements.

As of January 1, 2008, Ember will be required to adopt two new CICA standards, Section 3862 *Financial Instruments Disclosures* and Section 3863 *Financial Instruments Presentation*, which will replace Section 3861 *Financial Instruments Disclosure and Presentation*. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

As of January 1, 2008, Ember will be required to adopt CICA Section 1535 *Capital Disclosures*, which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

Over the next five years the CICA will adopt its new strategic plan for the direction of accounting standards in Canada which was ratified in January 2006. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Report Standards (IFRS) over the next five years. Ember continues to monitor and assess the impact of the planned convergence of Canadian GAAP with IFRS.

Estimates

In the preparation of the financial statements, it was necessary for Ember to make certain estimates that were critical to determining assets, liabilities and net income. None of these estimates affect the determination of cash flow, but do have a significant impact in the determination of net income. The following are some of those critical measures.

Natural Gas Reserves

All of Ember's natural gas reserves are evaluated and reported on by an independent qualified reserve evaluators. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and economics of recovery based on cash flow forecasts.

Depletion and Depreciation Expense

The Company follows the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized cost, net of certain costs related to unproved properties and estimated future development costs is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depletion and depreciation expense. Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment, for which any write down would be charged to depletion and depreciation expense.

Full Cost Accounting Ceiling Test

Natural gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. Costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the natural gas assets. If the carrying value of the natural gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using future product prices and costs and are discounted using the risk-free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion and depreciation expense.

Asset Retirement Obligations

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost. The total future asset retirement obligation is an estimate based on the Company's net ownership interest in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligation is an estimate that is subject to measurement uncertainty and any change would impact the liability.

Stock-based Compensation

The Company follows the fair value method of valuing stock option grants and Performance Share issues. Under this method, compensation cost, attributable to share options granted and Performance Shares issued to employees, contractors, officers and directors of Ember is measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options and the conversion of Performance Shares, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. Stock-based Compensation is an estimate that is subject to measurement uncertainty and any change would impact the expense recorded and the corresponding charge to shareholders' equity.

Income Taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

Business Risks

Ember is engaged in the exploration, development and production of CBM-based natural gas. The natural gas business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, environmental factors, and regulatory, environment and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services. The following are key risk areas for the Company.

CBM Operations

CBM operations in Western Canada are in the early stages of development. As a result, many factors affecting the economics and success of CBM operations are unknown or not fully known at this time.

Ember has a number of demonstration projects that A851have been designed to provide the Company with information regarding well productivity, reserve recovery factors and reservoir characteristics. This information is required to advance the project areas to commercial development,

Ember's business is subject to all of the operating risks associated with drilling for and producing natural gas, including fires, explosions, blowouts and surface cratering, uncontrollable flows of underground natural gas, formation water, natural disasters, pipe or cement failures, casing collapses, embedded oilfield drilling and service tools, abnormally pressured formations and environmental hazards, such as natural gas leaks, pipeline ruptures and discharges of toxic gases.

In addition, the exploration for, and production of CBM differs from conventional oil and gas and can pose additional operating risks.

CBM can require higher capital commitments than similar depth conventional gas developments due to such factors as the type of drilling and completion techniques required, which can entail the complexity of development of multiple coal steams. In some instances, more wells per section are required to effectively develop the resource in place. Lower wellhead pressures are typical with CBM production which can require additional compression or larger flow lines.

CBM also requires a longer timeframe for testing and development and often comes with water. In a sandstone or limestone reservoir, the gas molecules are between the rock particles. With CBM, the gas molecules are stuck to the coal or adsorbed, and the spaces between the coal, referred to as the "cleats", must be drained of water before gas will come out of the coal. The length of this dewatering process is different in each instance, but CBM wells in the United States have, in some instances, taken over a year before CBM production begins. Ember's operations may require long lead times before peak production is reached, and the sustainability of production is subject to greater uncertainty than with conventional gas.

Water production from CBM firstly requires adequate disposal into government approved formations. The large volumes produced potentially create such operational concerns as freezing, scale formation, or backpressure caused by inefficient pumping.

As CBM is relatively new in Canada, there is additional regulatory complexity. This includes uncertainty or limitations to development from outstanding CBM ownership questions regarding freehold lands. With the recent introduction of CBM development in Canada, operators drilling or producing CBM wells are subject to public scrutiny. Any problems experienced by other operators might adversely impact Ember, through additional regulations or greater difficulty in acquiring leases, permits or regulatory approvals.

In addition, Ember could incur substantial losses as a result of loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties, suspension of the Company's operations and repairs to resume operations.

Safety and Environmental Matters

The natural gas industry is subject to extensive regulation pursuant to various municipal, provincial, national, and international conventions and regulations. Environmental legislation encompasses, among other things, restrictions and prohibitions on spills, releases and/or emissions of various substances produced in association with oil and natural gas operations. The Company is committed to meeting and exceeding its environmental and safety responsibilities. The Company has in place an environmental and safety policy designed, at minimum, to comply with current government regulations set for the oil and natural gas industry. Changes to governmental regulations are closely monitored to ensure compliance. Environmental reviews are completed as part of the due diligence process when evaluating acquisitions.

Although Ember maintains insurance commensurate with industry standards to cover reasonable risk and potential liabilities associated with its activities, as well as insurance coverage for officers and directors executing their corporate duties, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have an adverse effect upon its financial condition.

Operational Risks

Natural gas exploration operations are subject to all of the risks and hazards typically associated with such operations, including premature decline of reservoirs, hazards such as fire, explosion, blowouts, cratering and spills, each of which could result in substantial damage to natural gas wells, producing facilities, other property and the environment or in personal injury. In accordance with industry practice, Ember is not fully insured against all of these risks, nor are all such risks insurable. Although Ember maintains liability insurance in an amount that it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event Ember could incur significant costs that could have a materially adverse effect upon its financial condition.

Natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Ember and may delay exploration and development activities. To the extent that Ember is not the operator of its gas properties, the Company is dependent on such operators for the timing of activities related to such properties and is largely unable to direct or control the activities of the operators. The Company attempts to mitigate this risk by developing strong relationships with suppliers and contractors.

Volatility of Gas Prices and Markets

Natural gas prices are unstable and subject to fluctuation. Any material decline in prices could reduce the Company's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of Ember's reserves. Ember might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Ember's net production revenue causing a reduction in its gas acquisition and development activities. In addition, bank borrowings available to Ember are, in part, determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could further reduce the Company's borrowing base and thus, bank credit available and could require repayment of a portion of the Company's bank debt.

From time to time, Ember may enter into agreements to receive fixed prices on its natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Ember will not benefit from such increases.

Technology Risk

The Company relies on information technology to manage its day to day operations and perform reporting obligations including the preparation of financial statements, reporting to joint partners, and various governments in relation to payment of royalties and taxes. While the Company takes precautions to safeguard data, there is a risk that information systems could be corrupted or fail resulting in damage and cost to the Company.

Permits and Licences

Many of Ember's operations require licences and permits from various governmental authorities. There can be no assurance that Ember will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its projects in a timely manner or at all.

Foreign Currency Exposure

From time to time Ember may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared with the United States dollar, or the risk of increased repayments on United States dollar denominated debt if the Canadian dollar declines in value compared to the United States dollar, However, if the Canadian dollar declines in value compared with the United States dollar, it will not benefit from the fluctuating exchange rate.

Title to Properties

Although title reviews are completed according to industry standards prior to the purchase of most natural gas producing properties, or the commencement of drilling wells as determined appropriate by management, these reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat a claim of Ember, which could result in a reduction of the revenue received by the Company.

Reserve Estimates

There are numerous uncertainties inherent in estimating economically recoverable quantities of natural gas reserves (including natural gas liquids) and cash flows to be derived from these reserves, including many factors beyond the control of Ember. These estimates include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions are based on price forecasts in use at the date the relevant evaluations were prepared, and many of these assumptions are subject to change and are beyond the control of Ember. Actual production and cash flows derived from reserves will vary from these evaluations, and such variations could be material.

Reserve Replacement

Ember's future natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves Ember may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in reserves will depend on Ember's ability to develop any properties it may have from time to time, and on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that Ember's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of natural gas.

To mitigate this risk, Ember has assembled a team of experienced technical professionals who have expertise in operating and exploring areas which the Company has identified as being the most prospective for increasing Ember's reserves on an economic basis.

Substantial Capital Requirements and Liquidity

Ember may have to make substantial capital expenditures for the acquisition, exploration, development and production of natural gas reserves in the future. If revenues or reserves decline, Ember may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require Ember to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects.

Issuance of Debt

From time to time Ember may enter into transactions to acquire assets or shares of other corporations. These transactions may be financed partially or wholly through debt, which may increase debt levels above industry standards. Ember's articles and bylaws do not limit the amount of indebtedness it may incur. The level of Ember's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Environmental Regulation

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other greenhouse gases (GHG). On October 19, 2006, the Canadian Federal Government introduced into Parliament the Clean Air Act (Bill C-30) and released its accompanying Notice of Intent to Develop and Implement Regulations and Other Measures to Reduce Air Emissions (the "Notice"). The Bill and the Notice are intended to reflect the Government's "made in Canada" approach to Canada's Kyoto Protocol obligations and reduce criteria air pollutants and GHG emissions in Canada.

Bill C-30 does not expressly include emission reduction targets for industrial sectors. However, the Notice provides for sector emission intensity based targets for GHG to come into effect by the end of 2010 and long-term GHG emission reduction targets from 2003 levels by 2050. The National Round Table on the Environment and Economy is charged with advising the Government on these targets. Future emission reduction targets and emission intensity targets, together with provincial emission reduction requirements contemplated in Alberta's Climate Change and Emissions Management Act, or emission reduction requirements in future regulatory approvals, may require the reduction of emissions or emissions intensity from the Company's operations and facilities.

The reductions may not be technically or economically feasible for the Company and the failure to meet such emission reduction requirements may materially adversely affect the Company's business and result in fines, penalties and the suspension of operations. As well, equipment from suppliers which can meet future emission standards may not be available on an economic basis and other methods of reducing emissions or emission intensity to required levels in the future may significantly increase operating costs or reduce output.

There is a risk that the federal and/or provincial governments could pass legislation which would tax such emissions or require, directly or indirectly, reductions in such emissions or emission intensity produced by energy industry participants for which Ember may be unable to mitigate. Mitigation of the risk of future legislative or regulatory limits on the emission of GHG may include the acquisition of emission reduction or off-set credits from third parties. However, emission reduction or off set-credits may not be available for acquisition by Ember or may not be available on an economic basis and may not be recognized or qualify under future legislative or regulatory regimes as mitigation for the emission of GHG by the Company.

Corporate Matters

To date, Ember has not paid any dividends on its outstanding Common Shares. Certain of the directors and officers of Ember are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of Ember, as the case may be, and as officers and directors of such other companies.

Reliance on Key Personnel

The success of Ember is largely dependent upon the performance of its management and key employees. Ember does not have any key man insurance policies and, therefore, there is a risk that the death or departure of any member of management or any key employee could have a material adverse affect on the Company. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of the business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of Ember's management.

Advisories

Disclosure Controls, Internal Controls and Procedures

The Company has established disclosure controls and procedures to ensure timely and materially accurate preparation of financial and other reports. Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Company's external filings. The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) oversee the process to evaluate the design and have concluded that the design and operation of these disclosure controls and procedures are adequate and effective in ensuring that the information required to be disclosed by the Company in reports filed with the Canadian Securities Administrators is accurate and complete and filed within the time periods required. The Chief Executive Officer and Chief Financial Officer have individually signed certifications to this effect.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Corporation's GAAP. There is no change in the Corporation's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. Management, including the Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all error or fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Given the Company's limited staff level, certain duties within the accounting and finance department cannot be properly segregated. However, none of the segregation of duty deficiencies resulted in a misstatement to the financial statements as the Company relies on certain compensating controls, including substantive periodic review of the financial statements and other information by the Chief Executive Officer and Audit Committee. This weakness is considered to be a common area of deficiency for many smaller listed companies in Canada.

Non-GAAP Measurements

This MD&A contains the terms "operating netback" and "funds from operations". These measurements should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with GAAP as an indicator of the Company's performance. The Company's determination of funds from operations and operating netback may not be comparable to that reported by other companies. The reconciliation between net earnings and funds from operations can be found in the statement of cash flows. The Company also presents funds from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculations used in determining earnings per share. Ember's peer companies in the oil and gas industry use the same definitions and for consistency the Company will continue to report in this manner.

Funds from operations are determined in the statement of cash flows as operating cash flows before working capital adjustments. Management uses this term to compare with other companies that also report this measure, to manage debt facilities that may use this measure to guide determination of debt pricing, and to readily provide this information to investors that routinely request this measure. Operating netback is not a measure that is readily apparent in the GAAP prepared financial statements. It is an energy industry measure which measures funds flows at the field level by determining all field-related revenues less costs. The Company uses this measure to compare its field operations with those of its peers, and reports this measure to the investment community which is either requesting it, or in the absence of the Company providing it, calculating the measure themselves.

BOE Presentation

This MD&A contains disclosure expressed as barrel of oil equivalent ("boe"), and as such equivalency measures may be misleading particularly if used in isolation. Petroleum and natural gas reserves and volumes have been converted to a common unit of measure of one boe on a basis of six thousand cubic feet (mcf) of gas to one barrel (bbl) of oil. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Additional Information

Additional information relating to Ember is filed on Sedar and can be viewed at **www.sedar.com**. This information includes the Company's Annual Information Form. Information can also be obtained by contacting the Company at Ember Resources Inc., Suite 800, 521 – 3rd Avenue, SW, Calgary, Alberta, Canada T2P 3T3. Information is also accessible on the Company's website at **www.emberresources.com**.

MANAGEMENT'S REPORT

The accompanying Financial Statements of Ember Resources Inc. are the responsibility of Management. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best judgments. Financial information contained throughout the annual report is consistent with these financial statements.

Management has overall responsibility for internal controls and has developed and maintains a system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Company's operating and financial results and that the Company's assets are safeguarded. The policy of the Company is to maintain the highest standard of ethics in all its activities and it has a written code of business conduct.

The Company's Board of Directors has approved the information contained in the financial statements. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written mandate that complies with the current requirements of Canadian securities legislation. The Audit Committee meets on at least a quarterly basis.

Ernst & Young LLP, an independent firm of chartered accountants, was appointed by a vote of shareholders at the Company's last annual meeting to audit the financial statements and provide an independent opinion.

Doug Dafoe
Chief Executive Officer and Chairman of the Board

Bruce Ryan
Vice President Finance and Chief Financial Officer

March 14, 2007

AUDITORS' REPORT

To the Shareholders of Ember Resources Inc.

We have audited the balance sheets of Ember Resources Inc. (the "Company") as at December 31, 2006 and 2005, and the statements of income (loss) and retained earnings (deficit) and cash flows for the year ended December 31, 2006 and the period from July 7, 2005 to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005, and the results of its operations and its cash flows for the year ended December 31, 2006 and the period from July 7, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Calgary, Canada

March 14, 2007

BALANCE SHEETS

($ thousands)	As at December 31, 2006	As at December 31, 2005 (Restated – Note 2)
Assets *(note 5)*		
Current assets		
Cash and cash equivalents	**$ –**	$ 17,596
Short-term investments	**–**	10,000
Accounts receivable *(note 3)*	**4,430**	3,316
Prepaid expenses	**241**	145
	4,671	31,057
Property and equipment *(notes 2, 3, 4)*	**77,739**	47,389
	$ 82,410	$ 78,446
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 6,876**	$ 11,885
Bank loan *(note 5)*	**8,890**	–
	15,766	11,885
Asset retirement obligation *(note 6)*	**2,527**	1,952
	18,293	13,837
Commitments *(note 11)*		
Shareholders' Equity		
Share capital *(note 7)*	**62,894**	62,901
Contributed surplus *(note 7)*	**3,613**	586
Retained earnings (deficit)	**(2,390)**	1,122
	64,117	64,609
	$ 82,410	$ 78,446

See accompanying notes to financial statements

On behalf of the Board:

J.W. Peltier

J.W. Peltier
Director

D Balderston

Dennis Balderston
Director

STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)

($ thousands, except per share amounts)	Year ended December 31, 2006	Period from July 7, 2005 to December 31, 2005
		(Restated – Note 2)
Revenue		
Natural gas sales	$ 10,414	$ 4,404
Royalties	(1,057)	(354)
Interest income	249	347
	9,606	4,397
Expenses		
Operating	2,615	621
Transportation	365	127
Interest	41	–
General and administrative	1,958	597
Stock-based compensation expense *(note 7)*	1,928	526
Depletion, depreciation and accretion	6,211	1,368
	13,118	3,239
Income (loss) before taxes	(3,512)	1,158
Capital tax expense	–	(36)
Net income (loss) for the period *(note 8)*	(3,512)	1,122
Retained earnings, beginning of period	1,122	–
Retained earnings (deficit), end of period	$ (2,390)	$ 1,122
Earnings (loss) per share *(note 7)*		
Basic and diluted	$ (0.12)	$ 0.04

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

($ thousands)	Year ended December 31, 2006	Period from July 7, 2005 to December 31, 2005
		(Restated – Note 2)
Operating activities		
Net income (loss) for the period	$ (3,512)	$ 1,122
Add items not involving cash		
Depletion, depreciation and accretion	6,211	1,368
Stock-based compensation expense	1,928	526
Abandonment expenditures	(45)	–
Change in non-cash working capital related to operating activities *(note 10)*	532	(1,783)
	5,114	1,233
Financing activities		
Proceeds on issuance of share capital, net of share issuance costs	–	54,999
Bank loan advances net of repayments	8,890	–
Repayment of loan on initial transaction	–	(7,249)
Repurchase and cancellation of private placement shares *(note 7)*	(7)	–
	8,883	47,750
Investing activities		
Short-term investments	10,000	(10,000)
Additions to property and equipment	(34,842)	(31,594)
Change in non-cash working capital related to investing activities *(note 10)*	(6,751)	10,207
	(31,593)	(31,387)
Increase (decrease) in cash and cash equivalents	(17,596)	17,596
Cash and cash equivalents, beginning of period	17,596	–
Cash and cash equivalents, end of period	$ –	$ 17,596

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (amounts in thousands unless otherwise indicated)

1. Significant Accounting Policies

Nature of Business and Basis of Presentation

Ember Resources Inc. ("Ember" or the "Company") was incorporated on June 3, 2005 under the Business Corporations Act (Alberta), and commenced commercial operations on July 7, 2005 following the completion of a Plan of Arrangement (the "Arrangement") involving Thunder Energy Inc. ("Thunder"), Mustang Resources Inc. ("Mustang"), Forte Resources Inc. ("Forte"), Thunder Energy Trust, and the Company. Pursuant to the Arrangement, Ember acquired certain natural gas coalbed methane properties previously held by Thunder. At the time of this transaction, Ember and Thunder were related companies resulting in the transfer of assets to Ember from Thunder at their carrying values.

Ember is engaged in the acquisition of, exploration for and development and production of natural gas coalbed methane properties in Alberta. The financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. As the Company commenced operations on July 7, 2005, comparative results are for the period from July 7 to December 31, 2005.

Joint Operations

Exploration, development, and production activities may be conducted jointly with others and, accordingly, the Company only reflects its proportionate interest in such activities.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of natural gas properties and equipment and the provision for asset retirement obligations are based on estimates. In addition, the cost recovery ceiling test is based on estimates of proved reserves, production rates, natural gas prices, future costs, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with initial maturities of 90 days or less.

Plant and Equipment

The Company follows the full cost method of accounting for natural gas operations. All costs related to the acquisition of, exploration for and development of natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-producing property, costs of drilling both productive and non-productive wells, and the cost of natural gas production equipment. The Company also capitalizes direct general and administrative costs related to acquisition and development activities.

Gas assets are evaluated on an annual basis to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves (which includes future development costs) and the lower of cost and market of unproved properties exceed the carrying value of the gas assets. If the carrying value of the gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of costs and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate.

Proceeds from the disposition of gas properties are credited to the capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20% or more, in which case a gain or loss would be recorded.

The Company capitalizes initial production activities for all Mannville wells to recognize significant dewatering of the coals prior to achieving commercial gas production. Ember believes that a policy of capitalizing these dewatering efforts (including all expenses and incidental revenue) on a well by well basis, is more representative of the costs of bringing these assets on production. Under the policy, certain pre-production costs including expenses and incidental revenue are included in the full cost pool and depleted.

Depletion and Depreciation

Capitalized costs, together with estimated future capital costs associated with proved reserves, are depleted using the unit-of-production method based on estimated gross proved reserves of natural gas as determined by qualified independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on relative energy content of six thousand cubic feet of gas to one barrel of oil. Costs of significant unproved properties, net of impairment, are excluded from the depletion and depreciation calculation until it is determined whether or not proven reserves are attributable to the property or impairment occurs.

Other assets are recorded at cost and depreciated over their useful life on a straight line basis using the following rates:

Computer software	2 years
Computer hardware	3 years
Office furniture and fixtures	5 years

Asset Retirement Obligations

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related assets known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual abandonment expenditures are charged against the abandonment liability.

Financial Instruments

The Company may use derivative financial instruments from time to time to hedge its exposure to commodity prices and foreign exchange fluctuations. The Company does not enter into derivative financial instrument contracts for trading or speculative purposes.

The Company may enter into hedges of its exposure to natural gas commodity prices by entering into natural gas swap contracts, options or collars, when it is deemed appropriate. These derivative contracts, accounted for as hedges, would not be recognized on the balance sheet. Realized gains and losses on these contracts would be recognized in natural gas revenue and cash flows in the same period in which the revenues associated with the hedged transactions are recognized. Premiums paid or received would be deferred and amortized to earnings over the term of the contract.

Gains and losses resulting from changes in the fair value of derivative contracts that do not qualify for hedge accounting would be recognized in earnings when those changes occur.

Revenue Recognition

Revenues from the sale of natural gas are recorded when title passes to an external party.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted.

Stock-based Compensation Plan

The Company follows the fair value method of valuing stock option grants and Performance Share issues. Under this method, compensation cost, attributable to share options granted and Performance Shares issued to employees, contractors, officers and directors of Ember is measured at fair value at the date of grant and either capitalized or expensed over the vesting period with a corresponding increase to contributed surplus. Capitalized amounts are charged to earnings as depletion over the life of estimated reserves. Upon the exercise of the stock options and the conversion of Performance Shares, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The Company does not incorporate an estimated forfeiture rate for stock options and Performance Shares that will not vest; rather, the Company will account for actual forfeitures as they occur.

Per Share Information

Per share information is calculated on the basis of the weighted average number of Common Shares outstanding during the fiscal period. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted to Common Shares. Diluted per share information is calculated using the treasury stock method which assumes that any proceeds received by the Company upon exercise of in-the-money stock options plus the unamortized stock-based compensation expense would be used to buy back common shares at the average market price for the period. Performance Shares (contingently issuable shares) are based on the shares that would be issuable, if the end of the reporting period were the end of the contingency period, and the result would be dilutive.

2. Change in Accounting Policies

a) Capitalized General and Administration and Stock-based Compensation Expenses

Effective July 1, 2006, Ember changed its accounting policy for general and administrative (G&A) and stock-based compensation (SBC) expenses in order to better reflect the cost of bringing assets on production. Previously, Ember included direct costs and stock-based compensation benefits related to acquisition and development activities in G&A expenses. Under the new policy, direct costs and stock-based compensation benefits related to exploration and development are included in the full cost pool and depleted. The effect of this change in accounting policy has been recorded retroactively with restatement of the prior period.

b) Capitalized Mannville Pre-production Costs

Effective July 1, 2006, Ember changed its accounting policy for initial production costs related to Ember's drilling and production operations in Mannville zones. Previously, the Company recorded initial production activities (including all revenues and expenses) for all Mannville wells through the income statement as is typical for more conventional natural gas operations. However, significant revenue generation does not occur in Mannville zones until dewatering of the coals occurs thereby removing a significant amount of an impediment to gas production. Until commercial gas production and revenue generation commences, Ember believes that a policy of capitalizing these dewatering efforts (including all expenses and incidental revenue) on a well by well basis, is more representative of the costs of bringing these assets on production. Under the new policy, certain pre-production costs including expenses and incidental revenue are included in the full cost pool and depleted. The effect of this change in accounting policy has been retroactively applied with restatement of prior periods.

c) Effect of Changes

The effect of the adoption of the changes is presented below as increases (decreases) to amounts previously reported:

Balance sheet *($000s)*	Capitalization of direct G&A and SBC	Capitalization of Mannville Pre-production costs	Adjustment as at December 31, 2005
Property and equipment	$ 784	$ 123	$ 907
Retained earnings	**$ 784**	**$ 123**	**$ 907**

Income statement *($000s)*	Capitalization of direct G&A and SBC	Capitalization of Mannville Pre-production costs	Total for the six months ended December 31, 2005
Natural gas sales	$ –	$ (20)	$ (20)
Royalties	–	(6)	(6)
General and administrative expense	(534)	–	(534)
Operating expenses	–	(137)	(137)
Stock-based compensation expense	(282)	–	(282)
Depletion, depreciation and accretion expense	32	–	32
Net income	**$ 784**	**$ 123**	**$ 907**
Net income per share – basic and diluted			**$ 0.03**

3. Transfer of Assets and Commencement of Commercial Operations

Under the Arrangement, Thunder transferred to Ember certain producing and exploratory natural gas properties. At the time of this transaction, Ember and Thunder were related companies resulting in a transfer of assets to Ember from Thunder at their carrying value as follows:

Net assets received:		
Natural gas properties	$	16,431
Cash		2,208
Loan		(5,000)
Accounts payable		(2,249)
Asset retirement obligation		(1,502)
Common Shares issued (20,323 shares) *(note 7)*	**$**	**9,888**

Relationship with Thunder Energy Trust

As a result of the Plan of Arrangement, Ember and Thunder Energy Trust have joint interests in certain properties and undeveloped land. These joint interest properties are governed by standard industry agreements. As at December 31,2006 accounts receivable include $1,500,000 due from Thunder Energy Trust ($2,200,000 – 2005), which represented standard joint venture amounts including capital transactions.

4. Property and Equipment

December 31, 2006 *($000s)*	**Cost** *($)*	**Accumulated Depreciation** *($)*	**December 31, 2006 Net Book Value** *($)*
Natural gas properties	**84,626**	**(7,114)**	**77,512**
Office and computer	**445**	**(218)**	**227**
Total	**85,071**	**(7,332)**	**77,739**

December 31, 2005 *($000s) (Restated note 2)*	Cost *($)*	Accumulated Depreciation *($)*	December 31, 2005 Net Book Value *($)*
Natural gas properties	48,310	(1,260)	47,050
Office and computer	385	(46)	339
Total	48,695	(1,306)	47,389

As at December 31, 2006, the depletion calculation excluded unproved properties of $37,030,000 ($30,200,000 – 2005). These properties consist of undeveloped land and assets with no assigned reserves that are held for future development. At December 31, 2006 a total of $8,413,000 of future development costs were included in the depletion calculation ($8,351,000 – 2005). General and administrative expenses totaling $654,000 ($229,000 – 2005) were capitalized during the year. Stock-based compensation costs totaling $1,099,000 ($282,000 – 2005) were capitalized during the year.

Application of the ceiling test did not result in an impairment to the carrying value of property and equipment. The prices used in the ceiling test of the Company's natural gas reserves at December 31, 2006 were:

Natural gas – AECO C

Year	$/mcf
2007	$ 7.72
2008	$ 8.59
2009	$ 7.74
2010	$ 7.55
2011	$ 7.72
Thereafter	Plus 2.0%

5. Bank Loan

The Company has a $15,000,000 demand revolving operating credit facility with a Canadian chartered bank. The credit facility provides that advances may be made by way of direct advances, Banker's Acceptances, or standby letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances and at the bank's U.S base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is dependent upon the Company's debt to trailing cash flow ratio. The Banker's Acceptances bear interest at the applicable Banker's Acceptance rate plus an explicit stamping fee based upon the Company's debt to trailing cash flow ratio. The average interest rate on the loan during 2006 was 6%. A fixed and floating charge debenture on the assets of the Company have been provided as security. At December 31, 2006 the Company had drawn $ 8,890,000 on the facility. The facility is scheduled to be reviewed in April 2007.

6. Asset Retirement Obligation

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities and the estimated timing of the cost to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the retirement obligation is approximately $4,749,000 ($4,000,000 – 2005) which will be incurred over the next 10 years with the majority of costs incurred between 2012 and 2013. A credit adjusted risk-free rate of 8.5% and an inflation rate of 2.0% were used to calculate the present value of the asset retirement obligation.

The following table reconciles the Company's asset retirement obligations:

($000s)	**Year ended December 31, 2006**	Period ended December 31, 2005
Balance, beginning of period	**$ 1,952**	$ –
Obligation assumed through Plan of Arrangement *(note 3)*	**–**	1,502
Liabilities incurred	**537**	482
Liabilities settled	**(45)**	–
Accretion expense	**186**	62
Revisions	**(103)**	(94)
Balance, end of period	**$ 2,527**	$ 1,952

7. Share Capital

Authorized

An unlimited number of voting Common Shares, without nominal or par value
1,400,000 non-voting Performance Shares, without nominal or par value

Issued

	Number of shares *(000s)*	Amount *($000s)*
Common Shares		
Issued pursuant to Plan of Arrangement *(note 3)*	20,323	9,888
Issued pursuant to private placement for cash	3,109	6,001
Issued for cash	7,000	50,050
Private placement shares cancelled	(13)	(25)
Share issue costs	–	(3,249)
Stock-based compensation re-classed to share capital	–	222
Outstanding as at December 31, 2005	30,419	62,887
Private placement shares cancelled	(4)	(7)
Outstanding as at December 31, 2006	30,415	62,880
Performance Shares		
Outstanding as at December 31, 2005	1,400	14
Performance shares cancelled	(30)	–
Outstanding as at December 31, 2006	1,370	14
Total share capital as at December 31, 2006		62,894

Issue of Common Shares and Performance Shares

On July 6, 2005, prior to the completion of the Arrangement, Ember completed a private placement of 3,109,000 non-voting Common Shares at a price of $1.93 per share, and 1,400,000 non-voting Performance Shares ("Performance Shares") at a price of $0.01 per share for total gross proceeds of $6,015,000. Pursuant to the Arrangement, the outstanding non-voting Common Shares of Ember were exchanged for Common Shares.

100% of the shares issued pursuant to the private placement were acquired by contractors, employees, officers or directors of the Company, or Thunder ("Deemed Service Providers"). For Deemed Service Providers, Common Shares acquired through the private placement are held in escrow and will be released equally on each of January 9, 2006, July 10, 2006, and July 5, 2007. No securities will be released from escrow after the date the shareholder ceases to be a service provider. Upon the shareholder ceasing to be a service provider, Ember will repurchase for cancellation all of the securities of the shareholder then held in escrow at a price equal to the lesser of $1.93 per share and the market price of the Common Shares of Ember on the last day of trading immediately prior to the shareholder ceasing to be a service provider. During 2006 Ember repurchased and cancelled 4,000 private placement shares.

Each Performance Share is convertible into a fraction of a Common Share equal to the closing trading price of the Common Shares on the Toronto Stock Exchange on the day prior to such conversion, less $1.93, if positive, divided by the Common Share closing price. One-third of the Performance Shares will be convertible into Common Shares on each of the first, second, and third anniversaries of the closing of the Plan of Arrangement, which was July 6, 2005, provided the shareholder is an Ember service provider at that date. Upon a holder of Performance Shares ceasing to be a service provider, the Company may, subject to applicable law, redeem each Performance Share at a redemption price of $0.01 per share. During 2006 30,000 performance shares were redeemed.

Pursuant to the Arrangement, a total of 20,323,000 Common Shares were issued by Ember. Of this amount 18,940,000 Common Shares were issued on July 6, 2005 to the former shareholders of Thunder and Mustang in exchange for property (note 3). A further 1,383,000 Common Shares were issued to former employees, officers, and directors ("Option Holders") in exchange for cash proceeds of $2,208,000 as final settlement of share options held by the Option Holders in Thunder. As part of this settlement Ember incurred a one time charge of $222,000 relating to stock-based compensation costs transferred to Ember as its share of vested options from the Thunder reorganization that created Ember.

On August 31, 2005, the Company issued 7,000,000 Common Shares at a price of $7.15 per share. The proceeds, net of share issue costs of $3,040,000, were $47,010,000.

Earnings (loss) per share

The following table summarizes the Common Shares used in calculating the earnings (loss) per Common Share:

(000s)	**Year ended December 31, 2006**	Period ended December 31, 2005
Weighted average common shares		
Basic	**30,417**	28,176
Diluted	**30,417**	29,121

Stock Options

Pursuant to the Arrangement, the shareholders approved Ember's stock option plan. The number of Common Shares reserved for options granted under the stock option plan, together with any Common Shares reserved for issuance pursuant to the exercise of the Performance Shares, may not be more than 10% of the aggregate number of the then issued and outstanding Common Shares. As a result, the 3,042,000 shares authorized under the plan are reduced by the 1,370,000 Common Shares issuable on the exercise of the Performance Shares, leaving 1,672,000 available for other share options.

Share options issued have a term of five years, and vest equally over a period of three years. At December 31, 2006 outstanding share options had a remaining contractual life of 4.03 years (4.91 years – 2005), and were exercisable at prices ranging from $2.55 to $7.90 ($7.25 to $7.90 – 2005). At December 31, 2006 328,000 options and 457,000 performance shares had vested and were exercisable (none – 2005).

The following table summarizes information regarding stock options at December 31, 2006.

	Options Outstanding			Options Exercisable	
Exercise price	Number Outstanding *(000's)*	Weighted Average Remaining Life *(years)*	Weighted Average Exercise Price *($)*	Number Exercisable *(000's)*	Weighted Average Exercise Price *($)*
2.55	8	4.78	2.55	–	NA
3.59	100	4.55	3.59	–	NA
5.79	100	4.20	5.79	–	NA
6.21	100	4.29	6.21	–	NA
7.25	175	3.73	7.25	58	7.25
7.90	810	3.98	7.90	270	7.90
	1,293	**4.03**	**7.15**	**328**	**7.79**

The following table sets forth a reconciliation of stock option plan activity through to December 31, 2006.

	Number of Options *(000s)*	Weighted Average Exercise Price *($)*
Granted	1,140	7.74
Balance, December 31, 2005	1,140	7.74
Granted	308	5.13
Cancelled	(155)	(7.47)
Balance, December 31, 2006	**1,293**	**7.15**

Stock-based Compensation

Ember incurred stock-based compensation expense during the period from its regular share option plan and ongoing costs from the Performance Share plan.

The following table reconciles the Company's contributed surplus balance (certain amounts are restated – note 2) :

($000s)	**Year ended December 31, 2006**	Period ended December 31, 2005 *(Restated – note 2)*
Opening balance	**$ 586**	$ –
Stock-based compensation expensed	**1,928**	526
Capitalized to property and equipment	**1,099**	282
Re-classed to share capital on finalization of the Arrangement		(222)
Balance, December 31, 2006	**$ 3,613**	$ 586

The fair value of each option and Performance Share granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	Year ended December 31, 2006	Period ended December 31, 2005
Risk free interest rate *(%)*	**3.84 – 4.42**	3.62 – 3.87
Expected life Performance Shares *(years)*	**N/A**	3.00
Expected life stock options *(years)*	**4.00**	3.50 – 4.00
Expected volatility *(%)*	**60 – 67**	60
Dividends	**Nil**	Nil
Results *(per share)*		
Fair value of options granted	**$ 2.56**	$ 3.82
Fair value of Performance Shares granted	**N/A**	$ 0.89

8. Taxes

Future Tax Expense

The combined provision for taxes in the statement of income (loss) and retained earnings (deficit) reflects an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

($000s)	Year ended December 31, 2006	Period ended December 31, 2005
Income (loss) before income taxes	$ (3,512)	$ 1,158
Statutory income tax rate	34.50%	37.62%
Expected income taxes (recovery)	$ (1,212)	$ 436
Add (deduct):		
Non-deductible Crown charges	89	79
Resource allowance	(20)	(101)
Stock-based compensation	665	198
Rate adjustments and other	1,099	8
Tax reductions from unrecorded temporary differences	(621)	(620)
Future income tax expense	$ –	$ –

Future Income Taxes

($000s)	Balance as at December 31, 2006	Balance as at December 31, 2005
Property and equipment	$ 2,991	$ 7,822
Asset retirement obligation	770	656
Share issue cost	696	983
Tax loss carryforwards	5,309	926
	9,766	10,387
Less: Valuation allowance	(9,766)	(10,387)
Future income tax asset	$ –	$ –

As at December 31, 2006, the Company had tax deductions of approximately $105,710,000 that are available to shelter future taxable income. Included in this amount are non-capital losses totaling $17,419,000. Of this amount $3,200,000 expires in 2015, and $14,219,000 expires in 2026.

9. Financial Instruments

The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and bank loan approximated their fair values as at December 31, 2006 due to the immediate or short-term maturity of these instruments.

Credit risk

Ember's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks. A portion of Ember's production is currently sold through a joint venture partner to purchasers under normal industry sale and payment terms; the balance is sold to purchasers also under normal industry terms.

10. Supplemental Cash Flow Information

Changes in non-cash working capital were comprised of the following:

($000s)	Year ended December 31, 2006	Period ended December 31, 2005
Accounts receivable	**$ (1,114)**	$ (3,316)
Prepaid expenses	**(96)**	(145)
Accounts payable and accrued liabilities	**(5,009)**	11,885
Net change	**$ (6,219)**	$ 8,424
Net change by activity:		
Operating	**$ 532**	$ (1,783)
Investing	**(6,751)**	10,207
Net change	**$ (6,219)**	$ 8,424
Cash interest paid	**$ 11**	$ –
Cash taxes paid	**$ 36**	$ –

11. Commitments

As at December 31, 2006 ($000s)	Office lease
2007	**$ 288**
2008	**294**
2009	**221**
Total	**$ 803**

12. Subsequent Event

On March 1, 2007, the Company acquired coalbed methane natural gas assets from a private company for cash consideration of $8.75 million. The assets located in the Acme area of Alberta, consist of ten developed non producing gas wells, and a 70.5% operated interest in 16,960 gross acres of land (11,960 net). The effect of the acquisition is to increase property and equipment, and to reduce cash, by $8.75 million.

On March 1, 2007, the Company issued 5,660,400 common shares by way of a private placement, at $2.65 per common share for cash consideration of $15.0 million. Proceeds of the issue were used to fund the $8.75 million natural gas asset acquisition with the balance used to reduce debt and for working capital purposes. The effect of the transaction is to increase cash and share capital, by $15.0 million before transaction costs.

OFFICERS AND DIRECTORS

Doug Dafoe, CA *Chairman and Chief Executive Officer, Director*

Mr. Dafoe is a Chartered Accountant (C.A.) with over 25 years industry experience. Prior to joining Ember, Mr. Dafoe was President and Chief Executive Officer of Thunder Energy Inc., a company he co-founded in mid-1996. From Thunder's inception to its reorganization in July 2005, Thunder grew from a $200,000 initial capitalization to about 10,000 boe/d.

Terry Meek, P.Eng. *President and Chief Operating Officer, Director*

Mr. Meek is a professional engineer with 22 years experience in reservoir engineering, evaluations and exploitation. His most recent experience involved the co-founding of Thunder Energy Inc. in 1996 and served as its Vice President, Engineering from inception to 2005. From Thunder's inception to its reorganization in July 2005, Thunder grew from a $200,000 initial capitalization to about 10,000 boe/d.

Bruce Ryan, CA, CFA *Vice President, Finance and Chief Financial Officer*

Mr. Ryan has over 20 year's industry experience in western Canada and internationally. He has served in senior finance roles including positions as chief financial officer, corporate secretary, and director with a variety of reporting issuers listed on the Toronto Stock Exchange, and several private entities.

Tom Zuorro, B.Comm *Vice President, Land*

Mr. Zuorro is a professional landman with more than 28 years of land and related business development experience in the Canadian oil and gas industry. He has held progressively responsible positions with a number of public and private companies, most recently with Thunder Energy Trust. Mr. Zuorro holds a Bachelor of Commerce degree from the University of Alberta (1978) and is a member of the Canadian Association of Petroleum Landmen.

Ken Ronaghan, P.Eng. *Vice President, Engineering*

Mr. Ronaghan has 20 years experience in exploitation, evaluations and operations in the Canadian oil and gas industry. He has worked with a number of public oil and gas companies, most recently with Thunder Energy Inc. and Cypress Energy Inc.

Dennis Balderston, CA *Director*

Mr. Balderston is a Chartered Accountant and independent businessman with over 38 years of public accounting experience specializing in public and private energy sector companies. Previously, Mr. Balderston was a partner with Ernst & Young LLP from 1990 to 2005. He is currently a director of Cork Exploration Inc., VGS Seismic Canada Inc., EnerVest Energy and Oilsands Total Return Trust, EnerVest FTS Limited Partnership 2006, EnerVest FTS Limited Partnership 2006 II, and EnerVest FTS Limited Partnership 2007.

Colin Boyer, P.Eng. *Director*

Mr. Boyer is a professional engineer with 30 years oil and gas industry experience. He is an independent businessman and was formerly the President of Birchill Resources Partnership, an oil and gas company. Mr. Boyer's background includes being President of Boyer Petroleum Engineering Ltd. from 1985 to 2000, a consulting engineering firm providing services for field operations, production and reservoir analysis and management. Mr. Boyer served as a director of Thunder Energy Inc. from 1996 to 2005.

Fox Benton III, MBA *Director*

Mr. Benton holds an MBA and has over 16 years experience in the oil and gas industry in the United States as well as in international arenas. Most recently he was Chief Financial Officer of Ultra Petroleum, a publicly traded (AMEX – UPL), rapidly growing, independent exploration and production company focused on resource development in the United States and China.

Thomas Drolet, P.Eng. *Director*

Mr. Drolet holds a Masters of Science degree and has 36 years of experience in the electrical, nuclear and gas utility industries, both in North America and internationally. Currently Mr. Drolet is Vice-President, International Business with DTE Energy Technologies Inc., a high-technology company specializing in providing distributed generation products and services to solve the energy-related needs of residential, commercial and industrial customers.

Jack Peltier *Director*

Mr. Peltier has been involved in the oil and gas industry for over 30 years. He is currently President of Ipperwash Resources Ltd., a company engaged in oil and gas production, investments and oil and gas management and consulting services.

Jeff van Steenbergen, P.Eng. *Director*

Mr. van Steenbergen is a founding and General Partner of KERN Partners, a Calgary-based energy sector private equity firm. He holds a Bachelor of Applied Science (Honours) in Civil Engineering and an MBA in International Business. Mr. van Steenbergen has been a finance professional for 19 years and has broad experience in private equity, capital markets, mergers and corporate finance. In addition he has 11 years of energy sector operating experience in North America, Asia and Western Europe, including eight years in offshore drilling operations.

Richard A.M. Todd *Director*

Mr. Todd is currently the Chairman and CEO of Osum Corp., a recently formed private oil sands company with approximately 7 billion BOIP (barrels of oil in place). He was the original founder of Mustang Resources Inc. and its Chairman, President and CEO prior to its amalgamation with Thunder Energy Inc. and Forte Resources Inc. in July 2005. Over the past 27 years, he has co-founded and was the CEO of five oil and gas exploration and production companies in both Canada and the United States. Mr. Todd graduated from the University of Denver with a B.S.B.A. (Business – Finance) in 1976 and a Juris Doctorate (Doctor of Low degree) in 1979. Mr. Todd has served on the Board of Governors of the Canadian Association of Petroleum Producers (CAPP) and is a director of several private companies as well as Thunder Energy Trust, as TSX-listed company.

CORPORATE GOVERNANCE

Ember Resources' Board of Directors is committed to a high standard of corporate governance practices. The Board believes that this commitment is not only in the best interest of the shareholders but that it also promotes effective decision making at the Board and Corporate level. The Board and the Company are of the view that its approach to corporate governance is appropriate and complies with the objectives and guidelines relating to corporate governance set forth in National Instrument 58-201 – Corporate Governance Guidelines. In addition, the Board monitors and considers for implementation by the Corporation the corporate governance standards that are proposed by various Canadian regulatory authorities or which are published by various non-regulatory organizations in Canada.

Ember's Board is comprised of eight directors with a wide range of experience. Six of the eight directors are independent as defined by National Instrument 58-101 – Disclosure of Corporate Governance Practices. The Board has appointed three committees to oversee audit, reserve, and governance, board composition, and compensation matters.

Ember's Board and its committees have adopted and approved the following documents which provide guidance to its governance activities:

- Board of Directors Terms of Reference
- Audit Committee Charter
- Reserve Committee Charter
- Corporate Governance, Board Nomination, and Compensation Committee Charter
- Whistleblower Policy
- Corporate Disclosure Policy
- Policy on Trading in Securities by Directors, Officers and Employees
- Code of Business Conduct
- Code of Ethics for Officers
- Position Description CEO
- Lead Director Mandate

*For more specific information on Ember's Corporate Governance practices, please refer to the Information Circular prepared for the Company's Annual Meeting to be held on May 23, 2007 which is available on the Company's website at **www.emberresources.com**.*

CORPORATE INFORMATION

Board of Directors

Doug Dafoe, CA
Chairman and
Chief Executive Officer
Ember Resources Inc.

Terry Meek, P. Eng.
President and
Chief Operating Officer
Ember Resources Inc.

Dennis Balderston, CA (1) (3)
Independent Businessman

Colin Boyer, P. Eng. (2) (4)
Independent Businessman

Fox Benton III, MBA (1) (3)
Independent Businessman

Thomas Drolet, P. Eng. (2) (3)
Independent Businessman

Jack Peltier (1) (2) (4)
President
Ipperwash Resources Inc.

Jeff van Steenbergen, P. Eng. (2) (4)
General Partner
Kern Partners

Richard Todd (3)
Chairman, Chief Executive Officer
OSUM Corp.

Officers

Doug Dafoe, CA
Chairman and
Chief Executive Officer

Terry Meek, P. Eng.
President and
Chief Operating Officer

Bruce Ryan, CA, CFA
Vice President, Finance
and Chief Financial Officer

Tom Zuorro, B.Comm
Vice President, Land

Ken Ronaghan, P. Eng.
Vice President, Engineering

Managers

Art McMullen, P. Eng.
Manager, Reservoir

Dale Shipman, P. Eng.
Manager, Production

Jim Kelly, P. Eng.
Manager, Operations

Quinton Rafuse
Manager, Geology

Peter Lawrence, CMA
Manager, Accounting

Auditors
Ernst and Young LLP

Bankers
Bank of Montreal

Legal Counsel
Macleod Dixon LLP

Reserves Engineers
Sproule Associates Limited

Transfer Agent and Registrar
Olympia Trust Company

Stock Exchange
Toronto Stock Exchange
Trading Symbol: EBR

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Annual General Meeting
Ember Resources will hold its Annual General Meeting at 3:00 p.m. local time, May 23, 2007, Metropolitan Centre, Strand/Tivoli Room 333 – 4 Avenue SW, Calgary, Alberta.

Shareholders are encouraged to attend. Those unable to attend are asked to complete and return their Form of Proxy.

Abbreviations

bbl(s)	barrel(s)
mbbls	thousand barrels
mmcf	million cubic feet
bcf	billion cubic feet
tcf	trillion cubic feet
boe	barrel of oil equivalent (6 mcf = 1 bbl)
/d	per day
NGL	natural gas liquids
CBM	coalbed methane

Committees

(1) *Audit Committee*

(2) *Reserves, Environmental Health and Safety Committee*

(3) *Compensation, Corporate Governance and Nominating Committee*

(4) *Health, Safety and Environment Committee*

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